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SITUATION IN THE PHILIPPINES AND IMPLICATIONS FOR U.S. POLICY

HEARING

BEFORE THE

SUBCOMMITTEE ON
EAST ASIAN AND PACIFIC AFFAIRS

OF THE

COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE

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SITUATION IN THE PHILIPPINES AND IMPLICATIONS FOR U.S. POLICY

TUESDAY, SEPTEMBER 18, 1984

UNITED STATES SENATE,
SUBCOMMITTEE ON EAST ASIAN AND PACIFIC AFFAIRS
OF THE COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:21 a.m., in room SD–419, Dirksen Senate Office Building, Hon. Frank H. Murkowski (chairman of the subcommittee) presiding.

Present: Senators Murkowski and Glenn.

Senator MURKOWSKI. We will call the hearing on the Philippines of the Subcommittee on East Asian and Pacific Affairs of the Committee of the Foreign Relations to order.

I apologize, gentlemen, for being late, but I was detained at my office briefly with the announcement that the five Alaskan fishermen that had been held by the Soviet Union had been released. That is indeed good news to all of Alaska and all Americans. They are being escorted back to the Nome area and will be released and debriefed shortly thereafter.

Today we are holding a hearing on the current situation in the Philippines and the implications for U.S. policy. I want to emphasize that the basis of this hearing is primarily to delve into and clarify the present situation, so that we all understand what our current policy is toward the Philippines.

The Republic of the Philippines certainly has been one of our Nation's closest allies and friends since the end of the last century. The United States has had a very special relationship with the Philippine nation and, above all, the Filipino people. More than 1 million Filipinos now live in the United States. Thousands of American citizens reside permanently in the Philippines. It is interesting to note that Filipinos represent the largest Asian minority in my home State of Alaska.

It is a relationship between two countries and two peoples based on mutual trust and respect. The United States operates two military bases in the Philippines, Clark Air Base and Subic Naval Base, which are extremely important to the U.S. strategic interests in Asia and the Eastern Pacific.

These bases contribute to the security of vital sea lanes stretching from Japan to the Persian Gulf. These bases cannot exist without the cooperation of the Government of the Philippines. We must have the genuine acceptance of the Filipino people as well.

It is also well known that in 1984 the Philippines is experiencing severe economic and political difficulties. The sources of these problems go back many years, but the situation has become extremely serious in the past months. In addition, the Communist insurgency, which was once considered only a nuisance, now represents an augmented problem for Philippine democracy. It feeds upon the economic and political difficulties within the country.

And the purpose today, again, is to hear from administration and public witnesses their assessment of the current situation, the basic causes of the country's problems, and the probable direction of events in the coming months. We hope that the administration witnesses will discuss the specific role of the United States and the policy that the United States might usefully play in this difficult situation. We would like to hear what changes, if any, are contemplated in that policy.

Our witnesses today will be: The Honorable Paul D. Wolfowitz, Assistant Secretary for East Asian and Pacific Affairs, Department of State; the Honorable James Kelly, Deputy Assistant Secretary for International Security; Mr. Charles W. Greenleaf, Jr., Assistant Administrator for Asia, Agency for International Development.

Our public witnesses will be: Prof. David Joel Steinberg, Brandeis University; Mr. Michael H. Posner, executive director of the Lawyers Committee for International Human Rights; Mr. Richard Buczynski, senior economist and director of Pacific Basin Econometric Services, Wharton Econometrics.

We welcome the witnesses today and thank them for the contribution which they are going to make at the hearing. Again, I apologize for the late start.

I might mention that we were also down at the White House this morning for an extended briefing on the development of the Pacific Basin economic area, where the President and Secretary of State Shultz spoke to us and reminded us that this administration had made eight visits by the President, Vice President, and Secretary of State to the Asian and Pacific area in the last 3½ years of the administration, which I think emphasizes the importance taken by the administration in this particular part of the world.

We are 2 hours short of the lunch time, so I would like to move now to the testimony of our witnesses. There will be many questions and I would expect some of my colleagues to join us later. We will proceed with the panel before us today, with Secretary Wolfowitz leading off, and then we will turn to the panel of public witnesses, and we will look forward to the testimony of you.

Mr. Wolfowitz, if you are ready you may begin.

STATEMENT OF HON. PAUL D. WOLFOWITZ, ASSISTANT SECRETARY FOR EAST ASIAN AND PACIFIC AFFAIRS, DEPARTMENT OF STATE

Mr. WOLFOWITZ. Thank you, Mr. Chairman. I have a longer statement that I am submitting for the record.

Senator MURKOWSKI. It will be entered into the record.

Mr. WOLFOWITZ. Thank you. In the interest of time, let me abbreviate.

An effort to address the implications of Philippine developments for U.S. policy can only begin with acknowledgment of the unique relationship that exists between our two countries. Relations between the United States and the Philippines rest on the foundation of shared history, common suffering during war, close people to people and institutional ties, a solid record of cooperation in economic development, and healthy trade and investment. Our close ties date back to the turn of the century.

In part due to our shared history, the United States and the Philippines have tended to have a common view of international security problems. As a member of ASEAN, the Philippines has contributed to the development of regional stability and prosperity. Our common interest is concretely manifested in our close defense partnership and continuing cooperation in defense and security matters.

The Philippines is currently experiencing its most serious economic difficulties since independence, at a time of considerable political uncertainty. It must be recognized that most of the problems faced by the Philippines today have fundamental institutional and political causes. The solutions will not be easy. In this situation, our approach must be guided by a number of complex considerations:

First, while the United States has a deep concern with the future of the Philippines and the health of its economy and political institutions, it is the Filipinos themselves who must determine their own politics and policies.

Second, while it is not inappropriate for us to express our deep belief in the importance of the democratic process as the Filipinos resolve their problems, it is up to them to choose their government.

And finally, while our influence in the Philippines is significant, our own role is most effective when ours is a voice in a debate that has already formed among Filipinos.

With these considerations in mind, we have tailored our approach to the evolutionary political and economic dynamics now at work in the Philippines, which have now developed a life of their own. We believe it has so far been a relatively successful evolutionary approach, in which Filipinos in their own style have actively taken on the challenge of revitalizing their own system.

The process has been difficult, and many very serious problems remain. President Marcos has responded positively to a number of very difficult challenges over the past months. But in the days ahead, compromise, tact, goodwill, and common sense will be needed to resolve the many remaining problems of the Philippines. So will a continued backdrop of understanding and support from the United States and the international community.

The roots of the present economic crisis go back to policy decisions and investment choices made in the 1970's. Its proximate causes were a growing public sector deficit, excessive borrowing from abroad, and a severe worldwide economic recession. The uncertainties created by the Aquino assassination led to capital flight and disinvestment. It precipitated a major economic crisis.

U.S. steps aimed at helping the Philippine economy weather this stormy period have included maintenance of bilateral assistance programs, expansion of CCC [Commodity Credit Corporation] and

Export-Import Bank credits, increased Public Law 480 title II feeding programs in cooperation with the Philippine Catholic Church, support for World Bank and IDB [International Development Bank] measures aimed at bringing about structural economic changes, and, perhaps most important at this time, vigorous support of an IMF standby program.

While the IMF [International Monetary Fund] agreement will pave the way for efforts to deal with the immediate financial crisis, there is growing recognition, both among Filipinos and in the international community, that the restoration of long-term growth will require structural changes in the Philippine economy, particularly in the agricultural sector, where monopolies and other distortions of the market economy have prevented the full exploitation of the nation's potential.

We have made clear our view that the natural strengths of the Philippine economy must be allowed to develop in a free market environment. It is in the political arena that the process of evolution is most apparent in the Philippines. The United States has used both public and private diplomacy to express our support for institutional reform. We have spoken out clearly on such questions as the need for a credible investigation of the Aquino assassination, the need for a new Presidential succession formula, and the importance of rebuilding democratic institutions to get the country through the current period of political transition.

Congressional measures, such as resolutions, hearings, statements by members and visits, have helped convey the message of the Congress. So have clear public statements of executive branch views on truly free, fair, and open elections, increased contact with the democratic opposition, and the newly active business and professional leaders, including meetings with key opposition and business leaders, with Members of Congress, and with high level administration officials.

The period since the Aquino assassination has seen numerous signs of political change. The independent Agrava Board was appointed to investigate the assassination itself. Its final report is expected to be issued shortly. The post-assassination period saw important steps toward political accommodation, including the establishment of an interim succession mechanism and agreement that the vice presidency will be restored in the next Presidential election.

The May 14 elections themselves, though far from fully open, did prove to be a more successful demonstration of democratic vitality than I think most observers expected. Opposition candidates won roughly one-third of the seats in the new assembly.

Cardinal Sin of Manila, while critical of government efforts to manipulate the balloting in many areas, did term the election "the freest and fairest since independence." More than 200,000 citizen volunteers associated with the National Citizens Movement for Free Elections [NAMFREL], turned out to monitor voting.

How the political situation will evolve in the wake of the parliamentary election is still an open question. Clearly, the process of revitalizing Philippine democratic institutions, after years of martial law, remains far from complete.

The new assembly has nonetheless altered the political equation and brought a new generation to the political scene. Today the opinions of government critics appear regularly in the press, as does coverage of such events as military abuses of civilians in rural areas.

Barring unforeseen developments, the forces in favor of rebuilding democratic institutions that have emerged over the past year seem likely to grow, as the Philippines approaches the next major events on the electoral calendar—provincial and local elections in 1986 and the Presidential election in 1987. These elections will be crucial tests of the revitalization of political institutions in the Philippines.

The Philippine situation is further complicated by a growing armed insurgency. The successes achieved in recent years by the New People's Army [NPA], the military component of the Communist Party of the Philippines, are related to the nation's broader political and economic problems.

Estimates vary as to the total strength of the New People's Army. But more important than the numbers themselves are the long-term trends. Both the number and scale of armed encounters with the armed forces are growing, and in some rural areas, especially in Mindanao, the government is widely perceived as on the defensive.

The future course of the insurgency will depend most importantly on how effectively the government is able to deal with root social, economic and institutional factors that fuel rural dissatisfaction, and which in turn relate to the overall political and economic challenges facing the Philippines. But at the same time, ably led and well-equipped professional military forces are an essential element of any successful effort.

If I may conclude briefly, U.S. policy toward the Philippines will continue to be guided by the following basic objectives in the difficult period that lies ahead:

First, support for the revitalization of democratic institutions. The May 14 elections, despite imperfections, represent a reaffirmation by the Philippine people of their support for the democratic process. Much more needs to be done. We are convinced that democratic stability and economic well-being are mutually reinforcing and will come about only through greater openness and competition on both the political and economic fronts.

Second, economic support. We are prepared to continue to support Philippine efforts to overcome current economic difficulties and create a basis for stable long-term growth. The United States will continue to cooperate with the assistance efforts of the International Bank for Reconstruction and Development [IBRD], with the IMF, and with other international donors and lending institutions, and we will provide what bilateral assistance we can. Future assistance, to be effective, must be accompanied by Philippine efforts to remove the constraints that currently block the realization of the full potential of the Philippine economy.

And third, the maintenance of our security relationship. Our military bases and mutual security treaties will continue to be vital to the defense of our security interests in an area in which

the Soviets, the Vietnamese, and the North Koreans are building up their military strength.

It is notable that our bases have not become a significant point of contention in the highly charged political atmosphere that now exists in the Philippines. Our security assistance program in the Philippines is an integral part of this overall defense relationship, in which not only the United States and the Philippine benefit, I might note, but the entire region.

Mr. Chairman, the next few years will not be easy ones for the Philippines. We face a dynamic situation and we are seeking to address it with a dynamic policy that builds upon the inherent strengths of Philippine society. Filipinos must make the hard decisions to restore confidence, to resolve the current problems, and to enable economic growth to resume. But U.S. policy will strive to assist the Filipinos to the extent that we can as they determine for themselves the political and economic future of their country.

Thank you.

[Mr. Wolfowitz' prepared statement follows:]

PREPARED STATEMENT OF HON. PAUL D. WOLFOWITZ

Mr. Chairman, I am pleased to have this opportunity to meet with you and other members of the Committee today to discuss recent developments in the Philippines and their implications for US policy.

US Relations with the Philippines

An effort to address the implications of Philippine developments for US policy can only begin with acknowledgement of the unique relationship that exists between our two countries. Relations between the United States and the Philippines rest on the foundation of shared history, common suffering during war, close people-to-people and institutional ties, a solid record of cooperation in economic development, and healthy trade and investment. Our close ties date back to the turn of the century. Together we have shared the suffering of World War II as well as the excitement and satisfaction of Philippine independence on July 4, 1946. We have also stood together in addressing the difficult problems of nation-building, economic development and international security that have characterized the postwar period.

Our longstanding economic ties remain beneficial for both sides. The US is still both the primary source of foreign investment in the Philippines and the largest market for

Philippine goods. Both the US Government and the private sector have played an important role in the economic development of the Philippines.

In part due to our shared history, the US and the Philippines have tended to have a common view of international security problems. As a member of ASEAN, the Philippines has contributed to the development of regional stability and prosperity. Our common interest is concretely manifested in our close defense partnership based on the 1947 Military Bases Agreement, the 1952 Mutual Defense Treaty, and continuing close cooperation in defense and security matters. This security relationship is crucial to our efforts to provide an effective counterbalance in the area to the growing military power of the Soviet Union and its surrogates. Our facilities in the Philippines are central to our ability to protect the sea and air lanes of the region and to provide logistical support for US forces in the Indian Ocean and Persian Gulf. The US military presence in the Philippines thus fulfills a vital function in maintaining regional security and stability--a role that has been noted positively by virtually all of the countries of East Asia--and that stability in turn contributes to the remarkable economic growth of the entire area.

Recent Philippine Developments and the US Response

The Philippines is currently experiencing its most serious economic difficulties since independence at a time of considerable political uncertainty. Longstanding problems were brought to a head by the tragic, still unsolved, assassination in August of 1983 of opposition leader and former Senator Benigno Aquino. As the shock waves of that assassination spread, political uncertainties grew, and an already difficult financial situation deteriorated precipitously.

It must be recognized that most of the problems faced by the Philippines today have fundamental institutional and political causes. The solutions will not be easy. In this situation, our approach must be guided by a number of complex considerations:

-- While the Filipinos must determine their own politics and policies, the United States has a deep concern with the future of the Philippines and the health of its economy and political institutions;

--While it is up to the Filipinos to choose their government, it is not inappropriate for us to express our deep belief in the importance of the democratic process as they resolve their political problems;

--Our influence in the Philippines is significant, but our role is most effective when ours is a voice in a debate that

has already formed in the Philippines.

With these considerations in mind, we have tailored our approach to the evolutionary political and economic dynamics now at work in the Philippines, which have developed a life of their own. We believe it has so far been a relatively successful, evolutionary approach in which Filipinos, in their own style, have actively taken on the challenge of revitalizing their own system. The process has been difficult, and many very serious problems remain. President Marcos has responded positively to a number of difficult challenges over the past months. In the days ahead, compromise, tact, good will, and common sense will be needed to resolve the many remaining problems of the Philippines. So will a continued backdrop of understanding and support from the U.S. and the international community.

Support for the Philippine Economy

The roots of the economic crisis go back to policy decisions and investment choices made in the 1970s. Its proximate causes were a growing public sector deficit, excessive borrowing from abroad, and of course a severe worldwide economic recession. The uncertainties created by the Aquino assassination led to capital flight and disinvestment. Trade financing by foreign banks began to dry up. Fiscal and

balance of payments problems deepened. The government sought a 90-day moratoriam on repayments of private debt principal last October, an action that has since been thrice repeated. Total outstanding foreign debt both public and private is now about $26 billion. Although the Philippine trade balance has shown improvement in recent months, in part due to two devaluations, the overall economic outlook remains bleak. Inflation is currently running at an annual rate of around 50 percent, and 1984 is likely to register a negative GNP growth rate of three-to-six percent.

U.S. steps aimed at helping the Philippine economy weather this stormy period have included maintenance of bilateral assistance programs and expansion of CCC and ExIm credits; increased PL 480 Title II feeding programs in cooperation with the Philippine Catholic Church; support for World Bank and ADB measures aimed at bringing about structural economic changes; and vigorous support of an IMF standby program.

Progress toward recovery has been delayed by difficulties in negotiations between the Philippine Government and the IMF on the $650 million standby credit. The IMF and the Philippine Government appear finally to have reached agreement on the basic elements of a standby arrangement, and we are hopeful that an agreement will soon be in place. With an IMF

agreement in effect debt rescheduling can proceed, and access will be opened to new foreign financing to reinvigorate the economy.

While the IMF agreement will pave the way for efforts to deal with the immediate financial crisis, there is growing recognition both among Filipinos and in the international community that the restoration of long-term growth will require structural changes in the Philippine economy, particularly in the agricultural sector where monopolies and other distortions of the market economy have prevented the full exploitation of the nation's potential. A widely publicized report by University of the Philippines economists recently addressed the question why the Philippines have failed to share the prosperity enjoyed by the other ASEAN nations. They concluded that the answer lies largely in such factors as the granting of special economic privileges by Presidential decreee. There is no reason to doubt that the Philippines, a nation blessed with abundant natural resources and an industrious and hardworking labor force, has the capacity to resume a path of long-term economic growth. We have made clear our view that for this to happen, the natural strengths of the Philippine economy must be allowed to develop in a free-market environment.

The Political Dynamic

It is in the political arena that the process of evolution is most apparent in the Philippines. The Aquino assassination reduced the credibility of the Marcos Government among broad sectors of the Philippine public and unleashed political forces that had previously been largely quiescent. The democratic opposition began to press its longstanding political demands with renewed vigor. The Catholic Church became a vocal and persistent advocate of democratic reform. Organized groups of businessmen and professionals, gravely concerned about instability, began to speak out on the issues and to organize peaceful demonstrations, and a nonpartisan citizens group emerged to lobby for free and fair elections. The National Assembly elections on May 14 assumed major significance in the highly charged political atmosphere that followed the Aquino assassination.

The United States has used both public and private diplomacy to express our support for institutional reform in the Philippines. We have spoken out clearly on such questions as the necessity for a credible investigation of the Aquino assassination, the need for a new presidential succession formula and the importance of rebuilding democratic institutions to get the country through the current period of

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political transition. Congressional measures such as resolutions, hearings, statements by members, and visits have helped convey our message. So have clear public statements of our views on truly free, fair, and open elections and increased contact with the democratic opposition and the newly active business and professional leaders, including meetings of key opposition and business leaders with members of Congress and high level admininstration officials.

The period since the Aquino assassination has seen numerous signs of encouraging political change. The independent Agrava Board was appointed to investigate the assassination itself. The Board's investigation has been impressively thorough, and it has developed a favorable reputation generally among most Filipinos. Its final report is expected to be issued shortly. The interest of the US Government in this tragic incident has been clear from the outset, when we termed it a cowardly and despicable political murder. As the Philippine Government knows through both our public statements and our private diplomacy, we expect the circumstances surrounding this brutal assassination to be clarified and those responsible to be held accountable and brought to justice.

The post-assassination period saw important steps toward political accommodation, including the establishment of an

interim succession mechanism and agreement that the vice presidency will be restored in the next presidential election. The May 14 elections themselves, though far from fully open, proved to be a more successful demonstration of democratic vitality than most observers expected. Opposition candidates won roughly one-third of the seats in the new Assembly. Cardinal Sin of Manila, while critical of government efforts to manipulate the balloting in many areas, termed the election "the freest and fairest since independence." The election was marked by a very high turnout--more than 80 percent--despite the effort of some elements of the opposition to promote a boycott. The number of younger Filipinos who voted was an encouraging indication that the desire to participate in the democratic process remains strong in the Philippines. More than 200,000 citizen volunteers associated with NAMFREL (National Citizens Movement for Free Elections) turned out to monitor voting.

How the political situation will evolve in the wake of the parliamentary election is still an open question. Clearly, the process of revitalizing Philippine democratic institutions rendered largely ineffective by years of martial law remains far from complete. While sharing the view of most Filipinos that the election results represent an important first step toward a more open political system, NAMFREL, for example, has

concluded that one-fourth to one-third of the races were marked by fraud and that the opposition would have won a majority in a fully open vote.

The new Assembly has nonetheless altered the political equation and brought a new generation to the political scene. It has already made an impact. Such issues as the President's power to legislate by decree are being debated not only by the opposition but also within the governing KBL, where such figures as Foreign Minister Tolentino and Prime Minister Virata have called for compromise. The role of the opposition may be enhanced by the greater degree of press freedom that has developed over the past year. Today, the opinions of government critics appear regularly in the press, as does coverage of such events as military abuse of civilians in rural areas.

Barring unforseen developments, the forces in favor of rebuilding democratic institutions that have emerged over the past year seem likely to grow as the Philippines approaches the next major events on the electoral calendar--provincial and local elections in 1986 and the Presidential election in 1987. These elections will be crucial tests of the revitalization of political institutions in the Philippines.

The Growing Insurgency Threat

The Philippine situation is further complicated by a growing armed insurgency. The successes achieved in recent years by the New Peoples' Army, the military component of the Communist Party of the Philippines, are related to the nation's broader political and economic problems. Depressed economic conditions aggravated by a rapidly growing working age population, weak and ineffective local government administration compounded by budgetary shortfalls, a perception that the central government does not respond to the people's basic social and economic needs, lax and inequitable dispensation of justice, and instances of abuse of citizens by military or para-military forces all have contributed to support for the NPA, which has projected itself with some success as a group of idealistic political and social reformers.

Estimates vary as to the total strength of the NPA. The Philippine Government has publicly estimated that the NPA numbers some nearly 8,000 armed guerrillas. The NPA itself claims some 20,000 guerrillas, 10,000 of them armed, and a mass base in the one million range. More important than the numbers themselves are the long-term trends. Unlike the Huks of the 1950's, the NPA has expanded beyond the traditional center of Philippine radicalism in central Luzon, to establish a

meaningful presence in about two-thirds of the country's provinces. Both the number and scale of armed encounters with the armed forces are growing, and in some rural areas, especially in Mindanao, the Government is widely perceived as on the defensive.

The future course of the NPA isurgency will depend most importantly on how effectively the government is able to deal with the root social, economic and institutional factors that fuel rural dissatisfaction, and which in turn relate to the overall political and economic challenges facing the Philippines. At the same time, ably-led and well-equipped professional military forces will be an essential element of the Government effort, and continued U.S. military assistance can play an important role in helping develop an effective military response. Strong democratic traditions, the strength of such moderate institutions as the Catholic Church, a dynamic business community and middle class, and an educated populace are important factors militating against a communist takeover of the Philippines. The insurgency is nonetheless a cause for concern about the future, a problem which calls not only for an effective military response but, even more importantly, for concentrated efforts to deal with its root causes.

US Policy

United States policy toward the Philippines will continue to be guided by the following basic objectives in the difficult period that lies ahead:

1. Support for the revitalization of democratic institutions. Healthy democratic institutions can help to asure both stability in the present and an orderly transition to the next generation of responsible leadership. While the pace of democratic revitalization and the precise shape of institutions are the exclusive responsibility of the Filipinos, we believe we have a stake in their success. The May 14 elections, despite imperfections, represent a reaffirmation by the Philippine people of their support for the democratic process. Much more needs to be done, and the US, a concerned ally, will remain an interested and supportive observer. We are convinced that democratic stability and economic well-being are mutually reinforcing and will come about only through greater openness and competition on both the political and economic fronts. As part of this effort, and in response to basic principles of US foreign policy, we will continue to engage in active diplomacy on behalf of human rights, the most fundamental democratic institution of them all.

2. Economic support. We are also prepared to continue to support Philippine efforts to overcome current economic difficulties and create a basis for stable, long-term growth. Healthy political developments are more likely to occur against a backdrop of basic confidence in the nation's economic future. The US will continue to cooperate with the assistance efforts of the IBRD, IMF, and other international donors and lending institutions and to provide what bilateral assistance we can. Our aid will continue to be guided by basic humanitarian purposes. Just last week we provided $1 million in emergency assistance to help the Filipinos recover from the devastation of typhoons that left more than 2,000 dead and 1.5 million homeless, and we are considering further rehabilitation and reconstruction assistance. As we seek to help the Philippine government attend to the urgent needs of its people, it is important, however, that the US as well as multilateral lending institutions do all possible to ensure that our assistance programs contribute to the reforms needed to establish a basis for long-term growth. Future assistance, to be effective, should be accompanied by Philippine efforts to remove the constraints that currently block the realization of the full potential of the Philippine economy. We look forward to a close policy dialogue with the Filipinos as we seek to assist them in overcoming their economic difficulties.

3. Maintenance of our security relationship. Our military bases and mutual security treaties will continue to be vital to the defense of our security interests in an area in which the Soviets, the Vietnamese and the North Koreans are building up their military strength. The smooth functioning of our base relationship is testimony to the commonality of our interests and goodwill on both sides. It is notable that our bases have not become a signficant point of contention in the highly charged political atmosphere that now exists in the Philippines. Our security assistance program in the Philippines is an integral part of this overall defense relationship. Our assistance, both economic and military, is also closely related to our interest in helping the Philippines prosecute a more effective effort against its communist insurgency.

Mr. Chairman, the next few years will not be easy ones for the Philippines. The Philippine people face a difficult road to economic recovery, complicated by communist efforts to seize the nation by force. The course of reestablishing democratic political institutions may not be smooth. We face a dynamic situation in the Philippines and are seeking to address it with a dynamic policy that builds upon the inherent strengths of Philippine society. Filipinos must make the hard decisions to restore confidence, to resolve the current problems, and to enable economic growth to resume. US policy will be to assist the Filipinos to the extent we can as they determine for themselves the political and economic future of their country.

Senator MURKOWSKI. Thank you, Mr. Secretary.
Mr. Kelly.

STATEMENT OF HON. JAMES A. KELLY, DEPUTY ASSISTANT SECRETARY OF DEFENSE FOR INTERNATIONAL SECURITY AFFAIRS, DEPARTMENT OF DEFENSE

Mr. KELLY. Mr. Chairman, with your permission I will abbreviate my statement and submit the full statement for the record, sir.

Senator MURKOWSKI. Your statement will be entered into the record. Please proceed.

Mr. KELLY. Thank you.

The United States is obligated to defend the Philippines under the terms of the Mutual Defense Treaty of 1952. Since the signing of this document, successive Philippine Governments have supported our ability to meet this treaty commitment by according U.S. forces unhampered use of the air and naval facilities at Clark and Subic Bay.

Last year, U.S. basing rights at these facilities were reviewed by representatives of our two governments and, in recognition of the Philippine contribution to our mutual defense efforts, President Reagan pledged his best efforts to gain congressional approval for an increase in the Philippine security assistance budget to a 5-year level of $900 million of military and economic assistance, including grants and loans.

Although not specified in the review agreement, both negotiating parties anticipated that this sum would be prorated over the 5-year period, with annual increments of $60 million in FMS [Foreign Military Sales] credits, $25 million in military grant, and $95 million in economic support funds [ESF].

During the past year, there has been considerable discussion on the importance of the bases and their contribution to the United States and Philippines security interests. I think it is fair to say that the majority of commentators, both within and outside the government, agree that the bases occupy a vital geostrategic position in Southeast Asia, they cannot be replicated elsewhere in any single location in the region, and that any relocation would be extremely expensive, despite what would probably be a less desirable strategic location. Without the bases, our capability to support operations in Asia and the Indian Ocean would be severely constrained.

Until recently, both the United States and the Philippines focused their defense efforts on the growing external threat from Soviet forces in Southeast Asia. The expanding Communist insurgency within the Philippines has, however, reoriented Manila's defense priorities, and the government is now shifting its resources to counter this internal threat. The Department of Defense believes that this emphasis on the internal threat is a prudent recognition of the growing strength of the Communist Party of the Philippines and its military arm, the New People's Army.

With respect to the character of the NPA, as in any insurgency, estimates of the guerrilla troop strength vary considerably. There is wide agreement, however, that the insurgents' strength has increased over the past several years, and that the number of armed

guerrillas now totals approximately 10,000, with as many as another 10,000 sympathizers.

As the strength of the insurgents has increased, so have incidents of sabotage and terrorism. Operating in company-size units and occasionally in battalion-size forces, the insurgents probably doubled their activities over the past year, and they now influence in some fashion approximately 20 percent of Philippine villages.

Although there is no evidence that the expanding power of the insurgency has received significant external support, the Communist guerrillas have imported the old Maoist ideology that proclaims that power grows out of the barrel of a gun, and that political change can only be realized through violent action. According to this revolutionary strategy, the insurgents cooperate occasionally with the moderate opposition, but clearly would not tolerate sharing power with any group should President Marcos fall.

The Government of the Philippines' efforts to contain the insurgency are therefore directed at radical antidemocratic forces which reject peaceful reforms, would eliminate U.S. facilities, and would destroy freedom in the Philippines. We fully recognize the critical importance of political and economic measures and reforms in dealing with the NPA insurgency. But there is a military element to the Philippine Government's response which is essential and cannot be ignored.

In any rural insurgency, the revolutionaries have the advantage of picking targets, spreading out the defensive armed forces, and striking at points less strongly defended. Although the combat forces of the NPA are currently inferior in numbers countrywide to the AFP [Armed Forces of the Philippines], the balance of power could favor the insurgents within the next several years.

The AFP have problems with equipment, mobility, logistics support, and with training. To a great extent, the situation can be linked directly to shrinking defense budgets of the Philippine Government. Over the past decade, the Armed Forces of the Philippines' budget has declined in real terms by 20 percent, reducing defense expenditures to 1.8 percent of gross national product, the lowest per capita outlay in all of Southeast Asia.

The cuts within the last year have been even more dramatic. This has occurred despite increases in military manpower. The effects on the AFP's readiness have been significant. Some units are short uniforms and boots, and others sometimes forage for food during field operations and resort to palm oil to lubricate weapons.

Observers note deficiencies in training, both technical and in small unit or counterinsurgency tactics. Transportation is extremely limited. On one island, only two trucks are available for two battalions. Many units are without tactical communication equipment, forcing commanders to rely on runners to transmit operation orders.

In the Navy, large numbers of ships are unable to get underway. This directly affects Army mobility in this nation of thousands of islands. In the Air Force, parts shortages and the effects of age and humidity have grounded many aircraft. It is this dismal condition of the AFP, even more than the strength of the NPA, that clouds the prospects for countering the insurgency.

But the outlook is not hopeless. Although declining defense budgets and mismanagement and abuses have contributed to the combat ineffectiveness, the government's emphasis on the external threat, primarily from the Soviets and Vietnamese, has resulted in some procurements in the past that were ill-suited to combating an insurgency. In the past year, however, there is evidence the government has revised its strategic thinking, reoriented its planning, and recognized the priority of the internal threat.

This recognition is reflected in the weapons and equipment that have been programmed for fiscal year 1985. Using the requested $60 million in FMS credits and $25 million in MAP funds, the Philippine Government plans to procure weapons and equipment that will bolster its counterinsurgency capabilities, and these items are appended to my statement.

Having defeated the Huk guerrillas during the 1960's, the AFP understands that a successful counterinsurgency requires more than the right kind of weapons and equipment. Leadership is paramount and effective training is vital. For these reasons, the AFP recently established new training programs to sharpen counterguerrilla warfare skills, strengthened its command structure by dismissing 400 individuals and disciplining 500 others for corruption and inefficiencies.

Moreover, by concentrating on the procurement of transportation and communications systems, the AFP will be able to respond rapidly where they are needed. A side benefit will be improvement of command and control, thereby achieving the means to enforce discipline and reduce abuses, particularly in the rural areas.

The Department of Defense believes there is a solid cadre of competent, patriotic officers in the AFP who have the determination to institute necessary reforms and turn the NPA tide. These officers cannot, however, overcome all of the critical deficiencies in weapons and equipment that exist, and they look to the United States for material resources to defeat the insurgency.

For this reason, we continue to urge that the Congress provide the full amount of security assistance funds requested by the administration in the fiscal year 1985 budget.

Thank you, sir.

[Mr. Kelly's prepared statement follows:]

PREPARED STATEMENT OF HON. JAMES A. KELLY

Mr. Chairman, I am pleased to join my colleagues from the State Department and AID to offer the views of the Defense Department on the situation in the Philippines and the implications for US policy. As the DoD Representative, I will confine my remarks to the security situation in the Philippines, the ramifications for US defense policy, and the effects on our security interests in Asia.

US and Philippine Security Interests

The United States is obligated to defend the Philippines under the terms of the Mutual Defense Treaty of 1952. Since the signing of this document, successive Philippine Governments have supported our ability to meet this treaty commmitment by according US forces unhampered use of the air and naval facilities at Clark and Subic Bay. Last year, US basing rights at these facilities were reviewed by representatives of our two governments and, in recognition of the Philippine contribution to our mutual defense efforts, President Reagan pledged his best efforts to gain congressional approval for an increase in the Philippine security assistance budget to level of $900M for the period FY 85-89. Although not specified in the review agreement, both negotiating parties anticipated that this sum would be prorated over the five-year period, with annual increments of $60M in FMS credits, $25M in MAP grant and $95M in ESF funds.

During the past year, in the wake of the base review, there has been considerable discussion among interested persons, in the press, and at congressional hearings on the importance of the bases and their contribution to US and Philippine security interests.

I THINK IT IS FAIR TO SAY THAT THE MAJORITY OF COMMENTATORS, BOTH WITHIN AND OUTSIDE THE GOVERNMENT, AGREE THAT THE BASES OCCUPY A VITAL GEO-STRATEGIC POSITION IN SOUTHEAST ASIA; THEY CAN NOT BE REPLICATED ELSEWHERE AT ANY SINGLE LOCATION IN THE REGION; AND THAT ANY RELOCATION WOULD BE EXTREMELY EXPENSIVE, DESPITE WHAT WOULD PROBABLY BE A LESS DESIRABLE STRATEGIC LOCATION. WITHOUT THE BASES, OUR CAPABILITY TO SUPPORT OPERATIONS IN ASIA AND THE INDIAN OCEAN WOULD BE SEVERELY CONSTRAINED. MOREOVER, THE IMPORTANCE OF THE BASES TO THE CONTINUED STABILITY OF SOUTHEAST ASIA -- A FACTOR THAT IMPACTS DIRECTLY ON PHILIPPINE SECURITY -- HAS BECOME EVEN MORE VITAL AS THE SOVIETS CONTINE THEIR BUILDUP AT CAM RANH BAY IN VIETNAM.

UNTIL RECENTLY, BOTH THE UNITED STATES AND THE PHILIPPINES FOCUSED THEIR DEFENSE EFFORTS ON THE GROWING EXTERNAL THREAT FROM SOVIET FORCES IN SOUTHEAST ASIA. THE EXPANDING COMMUNIST INSURGENCY WITHIN THE PHILIPPINES HAS, HOWEVER, REORIENTED MANILA'S DEFENSE PRIORITIES, AND THE GOVERNMENT IS NOW SHIFTING ITS RESOURCES TO COUNTER THIS INTERNAL THREAT. THE DEPARTMENT OF DEFENSE BELIEVES THAT THIS EMPHASIS ON THE INTERNAL THREAT IS A PRUDENT RECOGNITION OF THE GROWING STRENGTH OF THE COMMUNIST PARTY OF THE PHILIPPINES AND ITS MILITARY ARM, THE NEW PEOPLES ARMY (NPA).

CHARACTER AND DIMENSIONS OF THE NPA INSURGENCY

AS IN ANY INSURGENCY, ESTIMATES OF GUERRILLA TROOP STRENGTH VARY CONSIDERABLY. THERE IS WIDE AGREEMENT, HOWEVER, THAT THE INSURGENT STRENGTH HAS INCREASED SIGNIFICANTLY OVER THE PAST SEVERAL YEARS AND THAT THE NUMBER OF ARMED GUERRILLA NOW TOTALS

APPROXIMATELY 10,000, WITH AS MANY AS ANOTHER 10,000 SYMPATHIZERS. COLLABORATING WITH THESE FORCES ARE APPROXIMATELY 60,000 MEMBERS OF THE COMMUNIST PARTY OF THE PHILIPPINES, AND TO A LESSER EXTENT, POSSIBLY 100,000 MEMBERS OF THE COMMUNIST-DOMINATED NATIONAL DEMOCRATIC FRONT.

AS THE STRENGTH OF THE INSURGENTS HAS INCREASED, SO HAVE INCIDENTS OF SABOTAGE AND TERRORISM. OPERATING IN COMPANY-SIZE UNITS AND, OCCASIONALLY IN BATTALION-SIZE FORCES, THE INSURGENTS PROBABLY DOUBLED THEIR ACTIVITIES OVER THE PAST YEAR SO THAT THEY NOW INFLUENCE IN SOME FASHION APPROXIMATELY 20% OF PHILIPPINE VILLAGES. ALTHOUGH THERE IS NO EVIDENCE THAT THE EXPANDING POWER OF THE INSURGENCY HAS RECEIVED SIGNIFICANT EXTERNAL SUPPORT, THE COMMUNIST GUERRILLAS HAVE IMPORTED THE MAOIST IDEOLOGY THAT PROCLAIMS "POWER GROWS OUT OF THE BARREL OF A GUN," AND THAT POLITICAL CHANGE CAN ONLY BE REALIZED THROUGH VIOLENT ACTION.

ADHERING TO COMMUNIST REVOLUTIONARY STRATEGY, THE INSURGENTS COOPERATE OCCASIONALLY WITH THE MODERATE OPPOSITION, BUT CLEARLY WOULD NOT TOLERATE SHARING POWER WITH ANY GROUP SHOULD MARCOS FALL. MOREOVER, THERE IS NO FORMAL, UNITED FRONT BETWEEN THE MODERATE OPPOSITION AND THE COMMUNISTS AND, IN MANY INSTANCES, THE MODERATES ARE CLOSER TO THE GOVERNMENT THAN THE COMMUNISTS.

- THE COMMUNISTS AND NPA BOYCOTTED THE MAY PARLIAMENTARY ELECTION; THE MODERATES MAINLY PARTICIPATED.

- THE COMMUNISTS AND NPA OPPOSE THE US BASES; MOST MODERATES SUPPORT THEIR CONTINUED OPERATION.

- THE COMMUNIST AND NPA WOULD DESTROY CIVIL LIBERTIES AND ELIMINATE ALL OPPOSITION; THE MODERATES WOULD RETAIN DEMOCRATIC INSTITUTIONS.

- THE COMMUNISTS AND NPA ADVOCATE VIOLENT OVERTHROW OF THE GOVERNMENT; THE MODERATES PURSUE CHANGE THROUGH CONSTITUTIONAL PROCESS.

THE GOVERNMENT'S EFFORTS TO CONTAIN THE INSURGENCY ARE, THEREFORE, DIRECTED AT RADICAL, ANTI-DEMOCRATIC FORCES WHICH REJECT PEACEFUL REFORMS, WOULD ELIMINATE US FACILITIES, AND WOULD DESTROY FREEDOM IN THE PHILIPPINES. WE FULLY RECOGNIZE THE CRITICAL IMPORTANCE OF POLITICAL AND ECONOMIC MEASURES AND REFORMS IN DEALING WITH THE NPA INSURGENCY. BUT THERE IS A MILITARY ELEMENT TO THE PHILIPPINE GOVERNMENT'S RESPONSE WHICH IS ESSENTIAL AND CANNOT BE IGNORED.

Condition of the Philippine Armed Forces

IN ANY RURAL INSURGENCY, THE REVOLUTIONARIES HAVE THE ADVANTAGE OF PICKING TARGETS, SPREADING OUT DEFENSIVE ARMED FORCES, AND STRIKING AT POINTS LESS STRONGLY DEFENDED. ALTHOUGH THE COMBAT FORCES OF NPA ARE CURRENTLY INFERIOR IN NUMBERS TO THE AFP, THE BALANCE OF POWER COULD FAVOR THE INSURGENTS WITHIN THE NEXT SEVERAL YEARS. THE AFP HAVE PROBLEMS WITH EQUIPMENT, MOBILITY, AND LOGISTIC SUPPORT. TO A GREAT EXTENT, THIS SITUATION CAN BE LINKED DIRECTLY TO THE SHRINKING DEFENSE BUDGETS OF THE PHILIPPINE GOVERNMENT. OVER THE PAST DECADE, THE AFP'S BUDGET HAS DECLINED IN REAL TERMS BY 20%, REDUCING DEFENSE EXPENDITURE TO ONLY 1.8% OF GNP, THE LOWEST PER CAPITA OUTLAY IN ALL OF SOUTHEAST ASIA. THIS HAS OCCURRED DESPITE INCREASES IN MANPOWER. THE EFFECTS ON THE AFP'S READINESS HAVE BEEN SIGNIFICANT. SOME UNITS ARE SHORT OF UNIFORMS, AND BOOTS, OTHERS SOMETIMES FORAGE FOR FOOD DURING

FIELD OPERATIONS AND RESORT TO PALM OIL TO LUBRICATE THEIR WEAPONS. OBSERVERS NOTE DEFICIENCIES IN TRAINING--BOTH TECHNICAL AND IN SMALL UNIT OR COUNTER INSURGENCY TACTICS. TRANSPORTATION IS EXTREMELY LIMITED--ON ONE ISLAND, ONLY TWO TRUCKS ARE AVAILABLE FOR TWO BATTALIONS. MANY UNITS ARE WITHOUT TACTICAL COMMUNICATION EQUIPMENT, FORCING COMMANDERS TO RELY ON RUNNERS TO TRANSMIT OPERATION ORDERS. IN THE NAVY, LARGE NUMBERS OF SHIPS ARE UNABLE TO GET UNDERWAY. THIS DIRECTLY AFFECTS ARMY MOBILITY IN THIS NATION OF THOUSANDS OF ISLANDS. IN THE AIR FORCE, PARTS SHORTAGES AND EFFECTS OF AGE AND HUMIDITY HAVE GROUNDED MANY AIRCRAFT. IT IS THIS DISMAL CONDITION OF THE AFP, EVEN MORE THAN THE STRENGTH OF THE NPA, THAT CLOUDS THE PROSPECTS FOR COUNTERING THE INSURGENCY.

Outlook not Hopeless

ALTHOUGH DECLINING DEFENSE BUDGETS, MISMANAGEMENT, AND ABUSES CONTRIBUTE TO THE COMBAT INEFFECTIVENESS OF MOST AFP UNITS, THE GOVERNMENT'S EMPHASIS ON THE EXTERNAL THREAT--PRIMARILY FROM THE SOVIETS AND VIETNAMESE--HAS RESULTED IN PAST PROCUREMENTS THAT WERE ILL-SUITED TO COMBAT AN INSURGENCY. IN THE PAST YEAR, HOWEVER, THERE IS EVIDENCE THAT THE GOVERNMENT HAS REVISED ITS STRATEGIC THINKING, REORIENTED ITS PLANNING, AND RECOGNIZED THE PRIORITY OF THE INTERNAL THREAT. THIS RECOGNITION IS REFLECTED IN THE WEAPONS AND EQUIPMENT THAT HAVE BEEN PROGRAMMED FOR FY 85. USING THE REQUESTED $60M IN FMS CREDITS AND $25M IN MAP FUNDS, THE PHILIPPINE GOVERNMENT PLANS TO PROCURE WEAPONS AND EQUIPMENT THAT WILL BOLSTER ITS COUNTERINSURGENCY CAPABILITIES.

HAVING DEFEATED THE HUK GUERRILLAS DURING THE 1960'S, THE AFP UNDERSTANDS THAT A SUCCESSFUL COUNTERINSURGENCY REQUIRES MORE

THAN THE RIGHT KIND OF WEAPONS AND EQUIPMENT. LEADERSHIP IS PARAMOUNT, AND EFFECTIVE TRAINING IS VITAL. FOR THESE REASONS, THE AFP RECENTLY ESTABLISHED NEW TRAINING PROGRAMS TO SHARPEN COUNTER-GUERRILLA WARFARE SKILLS AND STRENGTHENED ITS COMMAND STRUCTURE BY DISMISSING 400 INDIVIDUALS AND DISCIPLINING 500 OTHERS FOR CORRUPTION AND INEFFICIENCIES. MOREOVER, BY CONCENTRATING ON THE PROCUREMENT OF TRANSPORTATION AND COMMUNICATIONS SYSTEMS (SEE ATTACHED PROCUREMENT LIST FOR FY 85), THE AFP WILL BE ABLE TO RAPIDLY RESPOND WHERE THEY ARE NEEDED. A SIDE BENEFIT WILL BE IMPROVEMENT OF COMMAND AND CONTROL, THEREBY ACHIEVING THE MEANS TO ENFORCE DISCIPLINE AND REDUCE ABUSES PARTICULARLY IN THE RURAL AREAS.

THE DEPARTMENT OF DEFENSE BELIEVES THERE IS A SOLID CADRE OF COMPETENT, PATRIOTIC OFFICERS IN THE AFP WHO HAVE THE DETERMINATION TO INSTITUTE THE NECESSARY REFORMS AND TURN THE NPA TIDE. THESE OFFICERS CANNOT, HOWEVER, OVERCOME ALL OF THE CRITICAL DEFICIENCIES IN WEAPONS AND EQUIPMENT. THEY LOOK TO THE US FOR MATERIAL RESOURCES TO DEFEAT THE INSURGENCY. FOR THIS REASON, WE CONTINUE TO URGE THAT THE CONGRESS PROVIDE THE FULL AMOUNT OF SECURITY ASSISTANCE FUNDS REQUESTED BY THE ADMINISTRATION IN THE FY 85 BUDGET.

PHILIPPINE ARMED FORCES PROCUREMENT LIST FOR FY 85

FMS CREDITS (IN MILLION DOLLARS)

AIRCRAFT SPARE PARTS AND SUPPORT EQUIPMENT	$ 8.50
LIGHT ARMORED VEHICLES	25.00
ARTILLERY FIRE CONTROL EQUIPMENT	1.20
NIGHT VISION DEVICES	3.75
ENGINES AND EQUIPMENT FOR ARMORED VEHICLES	2.30
MISCELLANEOUS SPARE PARTS FOR GROUND COMBAT SYSTEMS	1.10
INDIVIDUAL WEAPONS AND EQUIPMENT	2.03
ANTI-TERRORIST VANS	2.00
ENGINEERING VEHICLES	3.10
MICROWAVE COMMUNICATIONS SYSTEMS	12.3
TOTAL	$60M

MAP FUNDS (IN MILLION DOLLARS)

AIRCRAFT SPARE PARTS AND SUPPORT EQUIPMENT	9.8
LOGISTIC SUPPORT VEHICLES	4.3
FIRE CONTROL EQUIPMENT FOR MORTARS	0.40
SPARE PARTS FOR GROUND COMBAT SYSTEMS	3.4
AMPHIBIOUS WHEELED VEHICLES	7.5
TOTAL	$25M

Senator MURKOWSKI. Thank you very much, Mr. Kelly. Mr. Greenleaf.

STATEMENT OF CHARLES W. GREENLEAF, JR., ASSISTANT ADMINISTRATOR FOR ASIA, AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. GREENLEAF. Mr. Chairman, I do have a statement that I would like to submit for the record.

Senator MURKOWSKI. Your statement will be entered into the record.

Mr. GREENLEAF. I also have a very brief introductory comment.

Mr. Chairman, I appreciate the opportunity to testify on the Philippines and our economic assistance program there. Our development assistance program supports basic agriculture, small and medium rural enterprises, the capacity of local governments, fertility reduction, and primary health care.

The economic support fund program in the Philippines also has developmental goals. It has helped to build schools, markets, and roads near the bases. Now it is becoming more nationwide and entering new sectors.

Our Public Law 480 title II program aids maternal and child health and school feeding, and we also have provided emergency rice this past year. Still, the medium-term economic prospects for the Philippines are not good. We want to encourage the Government of the Philippines to implement major economic reforms, and we donors believe that we should prepare an agenda for policy dialog with the Philippine Government on key policy reforms.

In order to carry out this dialog, we propose to closely integrate programming of all U.S. economic assistance. We hope, Mr. Chairman, that the Philippine economic needs are matched by the requisite political will. If so, the prospects for the Philippines getting through its current economic crisis successfully will be substantially improved.

Thank you for inviting me to testify this morning, and I look forward to answering your questions.

[Mr. Greenleaf's prepared statement follows:]

PREPARED STATEMENT OF CHARLES W. GREENLEAF, JR.

Mr. Chairman and Members of the Committee:

I appreciate the opportunity to appear once again before the Committee to discuss the overall situation in the Philippines and how our assistance program relates to it.

The Philippine Economy

The Philippine economy grew at six per cent during the 1970s, a very respectable growth rate by international standards, but lower than that of comparable Asian countries. Growth, particularly in industry, was significantly slower than what could have been achieved in the Philippines, given its abundance of human and natural resources and its high investment levels.

This performance shortfall resulted from policies that provided continued and increasing subsidies and other supports to the large-scale, urban-industrial sector, at the expense of agriculture and medium and small-scale, non-agricultural activities. External borrowing and imports expanded rapidly while traditional exports and domestic resource mobilization lagged. Philippine economic growth in the 1970s was increasingly fueled by foreign private borrowing.

Because the pattern of economic growth was skewed towards large-scale, capital-intensive industry in urban areas, the impact on employment, income distribution, and poverty was weak. Manufacturing employment expanded slowly because high tariffs, import licensing, investment incentives, and low or even negative interest rates encouraged investment in capital-intensive industry.

The percentage of the population in poverty, according to a detailed World Bank study, remained close to 40 per cent in the 1970s, a discouraging contrast with countries such as Thailand and Indonesia where the incidence of poverty has fallen significantly with economic growth. In the least developed regions, the percentage of the population living in poverty rose to 60-70, often consisting of farmers engaged in rainfed agriculture and landless agricultural workers and their families.

The economic situation of the Philippines has deteriorated sharply during the past four years. The global recession, with depressed prices for major export commodities, high interest rates on external borrowing, and an increasingly unfavorable trading climate, exacerbated the effects of inappropriate investment, pricing, and fiscal policies.

Then came Senator Aquino's assassination and the crisis in political and economic confidence. All of this has led to sharply reduced domestic and external demand, a $3 billion current account deficit in 1983, a moratorium on principal repayments on foreign commercial loans, bank runs, and a 50 per cent inflation rate. Real GDP growth fell to about one per cent in 1983 and to a likely negative growth rate of five per cent in 1984.

The recently initialed IMF agreement, still to be approved by the IMF's Managing Director and Executive Board, represents a first major step towards economic policy reform and a hopeful sign that the Philippine Government is capable of making the politically tough decisions needed. We understand the agreement contains important measures related to government budget levels, revenues, credit expansion, and the exchange rate.

These are useful first steps, but concerted implementation of the IMF agreement as well as complementary policy reforms at the sectoral level are required if the Philippines is to weather this crisis and assure long term socio-economic advances. These include: freeing pricing and marketing decisions in a variety of agricultural sub-sectors, such as food grains, sugar, coconut, and fertilizer; stronger

efforts to promote rural private enterprise by improving rural financial markets; further liberalization of import policies to reduce protection to inefficient industries; and greater concentration on rural infrastructure.

A.I.D. Program

AID assistance in the Philippines since the 1970s has emphasized the reduction of poverty, especially by means of generating productive employment. AID has supported basic agricultural research, now focussing on development of rainfed rural areas; promoted small and medium-sized rural enterprises; improved the capacity of local governments to plan and implement their own development programs; and assisted public and private agencies in fertility reduction programs. We have been a major contributor to programs in the rural electrification and the non-conventional energy sector, a field in which the Philippines has done innovative and promising work.

The 1980-1984 ESF program has also been aimed at development activities. In its early phases it helped build schools, markets, and roads around the base areas. Now it is broadening its geographic scope to become more nation-wide, as well as entering new substantive areas such as rural energy. We believe much more can be done with the ESF resource to promote development objectives.

PL 480 Title II is another element of our overall program. In 1982, we felt that the Philippines' economic, food, and nutritional situation compared to that in other parts of the world, and our tight Title II budget, justified a gradual phase out of Title II in the Philippines by FY 1987. Under that plan, core Title II levels have been somewhat reduced from earlier levels but we are still very active in maternal and child health and school feeding. We also have added an emergency rice donation program, primarily through the Catholic Church, in 1984. We will review Title II requirements again in light of current trends in food production, nutrition, and employment.

Despite the worsening overall economic situation, our assistance has been helpful:

-- A.I.D.'s irrigation, improved technology and improved domestic marketing programs have helped achieve self sufficiency in food grain production (rice and white corn), although this is currently in precarious balance;

-- The creation of a clinic-based rural outreach service structure consisting of trained volunteer workers and the availability of free contraceptive services have helped achieve reduction of the population growth rate from 3.1 per cent to 2.5 per cent in a decade;

-- Community water, roads, and school projects have helped the rural sector and reduced the incidence of endemic diseases (although many isolated rural communities still lack access to these essential services);

-- The capacity of approximately half of all Philippine provincial-level governments to plan and implement development activities has been improved, and over 5,000 Filipinos have been trained in the U.S. and third countries.

At the same time, Philippine development performance has been mixed and, in many respects negative, reflecting the effects of unsound marketing, pricing, credit, and fiscal policies and investment choices.

Medium-Long Term Prospects/Strategy

The medium-term economic prospects for the Philippines are not good. Real income will continue to decline along with living standards, especially for the rural poor, as long as high

inflation rates erode the purchasing power of households and businesses. Most observers forecast a period of low growth that may last several years before the economy can fully recover to per capita and overall growth rates comparable to the 1970s.

The Government's austerity program will require restrained overall budgetary expenditures. These decisions require cuts in other GOP programs -- a difficult dilemma which may indeed compound political pressures.

AID and other donor assistance agencies may have to revise or update their strategies to encourage and support the GOP in implementing major economic policy reforms. Such reforms can do more for the Philippine economy than any external assistance. We and other donors believe that we should prepare an agenda for policy dialogue with the Philippines Government on key policy reforms, including:

-- changing inadequate agricultural policies in marketing, pricing, and credit to improve rural income and productivity;

-- increasing domestic resource mobilization at the local level to enable appropriate investments and development programs to be pursued; and

-- reducing public sector intervention in private sector activities to create a more competitive, open market environment.

All of these policy reform areas would have major income distribution as well as economic production objectives. To assist in carrying out this dialogue, we propose to closely integrate programming of all types of U.S. assistance. How we design and implement assistance projects and programs, as well as recommendations for future U.S. economic assistance levels, will be influenced by the Government's policy performance.

If, as we hope, Philippine economic needs are matched by the requisite political will, we would be prepared to direct our assistance program at supporting major economic policy adjustments in that country. The appropriate focus of the policy adjustment effort would be in the agricultural and rural sector, where the levels of existing policy constraint, potential socio-economic benefit, and our own sectoral expertise are greatest.

Finally, I would note that we have already increased the amount of money and staff time dedicated to monitoring the assistance program, and the Philippine government has likewise increased its monitoring capabilities in connection with the ESF program. I want to give this Committee my personal assurance that this level of responsible management will continue.

I appreciate the opportunity to appear today and to discuss these important issues. I look forward to answering any questions you may have.

Senator MURKOWSKI. Thank you very much, Mr. Greenleaf.

It is my understanding, gentlemen, that within a few days or a few weeks at the most, the Agrava Board will be issuing its report. Have you had an opportunity to have any advance information on the findings of that report at this time?

Mr. WOLFOWITZ. No, Senator. Our Embassy in Manila has been following the hearings of the board very closely, and has been in touch with us and has been giving their assessment as things proceed. The report of the board itself is something that everyone is interested in knowing about, but only the board members at this point, if anyone, know what the situation is.

Senator MURKOWSKI. I am sure you are aware that there have been references to the fact that there appears to have been a discrepancy from the standpoint of an official version that Aquino was shot by a lone gunman acting on behalf of the Communist Party, as opposed to testimony that has come out of the hearing on an unofficial basis, at least, indicating that there was a plot involving top officials of the Philippine Armed Forces.

Would you care to comment on either of those assertions?

Mr. WOLFOWITZ. Senator, I think we ought to wait and see what the board itself comes up with, and not form premature judgments of our own. I think it is the case, and I think all observers of their hearings have noted this, that they have been extremely diligent, extremely forceful in pressing issues and calling military witnesses back over and over again when they had problems with their testimony, in exposing weaknesses in the testimony of witnesses.

So, I think the board has done an impressive job, and before we draw our own conclusions, we ought to see what conclusions they have drawn.

Senator MURKOWSKI. Much has been made of the economic crisis in existence in the Philippines today. You, in your testimony, collectively have made reference to the fact that that is one of the underlying problems. Let's explore that a little further.

I am told that at the present time there is some $26 billion, which equates roughly to the amount of money that is the total outstanding foreign debt of the Philippines, that has gone out of the Philippines over the last 10 years in investments in other countries for the obvious reason that those who are responsible for that money felt that it was more secure outside the Philippines.

How can you possibly support the theory that an economic recovery can take place in a climate where investment is going outside the country for reasons that appear to be reflective of the political situation of the country?

Mr. WOLFOWITZ. Senator, without necessarily agreeing with that figure, which seems high to me, probably quite high, I certainly agree that there is not going to be a recovery in the Philippines as long as capital continues to flee the country rather than come in.

That is one of the fundamental problems in the present crisis. There was certainly a lot of capital that left, particularly in the wake of the political turmoil and uncertainties surrounding the Aquino assassination.

That is why I said in my statement that we think that democratic stability and economic development do go hand in hand, that po-

litical conditions that will attract capital back in are one of the essential things the Philippines needs for economic growth.

Senator MURKOWSKI. In your opinion, Mr. Secretary, are the problems associated with the Philippines political or economic?

Mr. WOLFOWITZ. They are very much both, and to some extent the one feeds on the other.

Senator MURKOWSKI. Well, let's reflect on the concern and role of the United States in addressing both phases. In your testimony you made reference, I think, in some detail to the fact that the Filipino people must control and determine their own destiny.

So, specifically, if we do recognize that the underlying problem is both political and economic, specifically what role should the United States play in the political sense of trying to assist the Philippines to overcome their problem, recognizing that the destiny is still within the control and authority of the Filipino people?

Mr. WOLFOWITZ. It is a very delicate matter, because it is in the first instance their business, but it would be wrong to conclude from that that we should therefore not say anything, that we should not give advice.

There is, because of our long historical associations, perhaps, even in the Philippines, a tendency to exaggerate our influence. Our advice does matter, but as I said in my testimony, the way our advice is most effective is not when we are recommending something that everyone in the Philippines is against or has not even thought about.

It is when a debate has already formed in the Philippines, and when there are voices, and frequently voices within the government as well as the opposition, pushing for certain things.

What we say, both through private diplomacy and through public statements, makes a difference. We have an ability to give very frank advice to the President himself and to other people in his government without any fear of favor or any special interests of our own to gain. So, it has an objectivity and directness that people listen to.

If you look at some of the positive developments that have taken place over the last year, while one has to assign the primary responsibility to the people in government, in the Philippines, I think that our role has been a positive one.

Senator MURKOWSKI. You speak of the tightrope that we must walk, and I do not disagree, but with the advancement of the Communist Party through the NPA, and the insurgency that is developing throughout the country, there is a political crisis developing associated with the Aquino assassination.

I gather that your official policy statement for the administration with regard to the political climate is a cautious one, one that can be reflected in a response to each individual crisis as opposed to more or less a general policy statement.

But I am concerned, say, with the eventuality of a situation occurring where the Marcos government may come to the United States and ask for some form of military assistance.

Have we determined what our policy would be in the event that the Marcos government indeed was shaken to the point where it was threatened by the advance of the NPA? And should that happen, what would our role be? Would it be a supportive role in

the political sense of the survival of the Marcos administration? Or wouldn't it?

Mr. WOLFOWITZ. It is not our job to pick or support specific administrations in the Philippines. It is our job to maintain a good relationship between the United States and the Philippines, both in the present and in the long run.

I do not think that interest would ever be served by the victory of a Communist insurgency, and it is certainly in our interest to assist in combating that, but when we talk about combating that, let me make it clear, the approach has to be a very broad one.

You have described our approach as a cautious one. I am not sure I would take that characterization, because we recognize that a very broad range of changes is needed; a restoration of democratic processes, which is a process that at best is only beginning; handling of the extraordinarily severe debt problem that the Philippines has incurred; beyond that, basic reforms in the economic sector, particularly in the agricultural sector; and finally, more effective military programs to deal with an insurgency.

So, one is talking about very broad, very ambitious, and very difficult tasks. The Philippines has a long way to go before all of those problems are tackled.

Senator MURKOWSKI. I appreciate your clarification on the posture of the administration, as you refer to it, not necessarily characterized as one of caution.

I think it is fair to say that our obligation to and association has been with the Philippines and the Filipino people. From a policy point of view, how do you distinguish between the support for the country as opposed to the perception of support for the Marcos government?

My question is leading, of course, but how do we guard ourselves from supporting a government that the people do not support? We have been down that road in our foreign policy from time to time, and hopefully have learned something from previous experience.

And from a policy point of view, how do you distinguish the obligation of support for the people in the country as opposed to support for a government that is currently in power and not altogether too popular, and that is running down the road of economic chaos.

Mr. WOLFOWITZ. Partly by making our concerns clear on basic issues of democratic reform; partly by making our best efforts to see that the assistance that we do give, particularly economic assistance, is spent in ways that benefit the people of the Philippines.

I think, by and large, over the recent crisis, we have been fairly successful in maintaining that broad position.

Senator MURKOWSKI. Have we communicated to the Marcos government that we may assist them in economic recovery, but that we will place conditions upon our military assistance?

Has a clear policy been transmitted to the Marcos government on what we will and will not do?

Mr. WOLFOWITZ. To the contrary, we believe in the need for, and we are asking the Congress to support requests for, military assistance that would in fact enable the military to better deal with the insurgency.

Senator MURKOWSKI. What happens if the NPA advancement or some other group take the form of a p ular front, and is supported by the people of the Philippines? D /e still go on the road of supporting Marcos and his government?

Mr. WOLFOWITZ. I do not think it is ever in our interest to have a government overthrown by a violent Marxist-Leninist revolution of the kind the NPA represents.

If the Filipinos democratically choose different leaders, then that is the government that we would deal with and work with. In fact, we maintain close contacts both with the government and with the many democratic opposition figures in the Philippines, with the Catholic Church, with the Philippine business community, with a broad sector of Philippine society.

Senator MURKOWSKI. In your opinion, is the situation from the standpoint of the political difficulties getting better or worse within the Marcos government?

Mr. WOLFOWITZ. I would describe it this way. I would say that the political situation has improved, but the question is whether the improvement has been fast enough to cope with the very real problems that the country faces. That is where the area of doubt arises.

Senator MURKOWSKI. Now, the other half of the difficulties that we acknowledge were the economic difficulties. Reference was made to the fact that some $26 billion has gone out of the Philippines in the past 10 years, and that is an amount roughly equal to the debt of the nation of the Philippines.

There has been reference, not officially, but certainly unofficially, to fraud and graft within the government, payoffs and so forth.

Are we, in our efforts to assist in an economic recovery of the Philippines, communicating to the Marcos government that it is very doubtful that confidence can be regained in that kind of climate if the Marcos government itself does not initiate certain improvements to tighten up and reestablish confidence so that investments, long-term investments will be made in the Philippines which will stimulate employment and increase the economic viability of the country?

Mr. WOLFOWITZ. Senator, one of the greatest incentives for fundamental change in the Philippines, one of the reasons why we have seen as much ferment and movement as we have is that that point, I think, is understood, and we certainly reinforce it repeatedly.

No amount of official assistance, certainly not the amounts that we or other countries can provide, in any way can make up for that kind of flight of c l. The key to getting the investment resources that the Philippines need to get back on a growth path is providing a climate of both political confidence and of economic reform that will make people want to keep investments in the Philippines and put new ones in.

Senator MURKOWSKI. Well, surely you must in your official communications discuss the economic plight with the Philippine Government officials. What is their response to the generalization that indeed there is graft and corruption, and the fact that capital has moved out of the country?

Do they have a program to counteract that? Is there anything significant, positive, and meaningful that has taken place now that would lead you to believe that the problem is being addressed in a responsible manner?

Mr. WOLFOWITZ. The problem is certainly being addressed. It has been one of the key subjects on the agenda of negotiations that the IMF has presently been conducting in the Philippines. It is also something that not only we take up bilaterally, but that the World Bank has been taking up with the Philippines.

Senator MURKOWSKI. Can you elaborate just a little bit? What is the Philippine Government, the Marcos government doing as a positive acknowledgement that indeed there has to be improvement in order for the economic climate to be turned around?

Mr. WOLFOWITZ. I would say that the first things we would hope to see are things that presumably are a part of the IMF package, if and when that is completed, and that includes, though we don't have the specific details, it includes a number of important changes that the government is going to need, actions the government will have to take both in order to begin repaying its foreign debt and also in order to free up controls on prices in the agricultural sector, to make improvements in the availability of rural credit, to provide for greater liberalization of imports so that imports do not simply go to whatever firm the government directs them to.

Those are subjects that are on the agenda at the IMF. I think that actions that the IMF and the Government of the Philippines have agreed on are an important first step in the way. However, I am quite sure we will see, when those actions are taken, that quite a bit more needs to be done.

Senator MURKOWSKI. I am more concerned about what the Philippine Government, the Marcos government, has agreed to do. What have they acknowledged? Have they internally a program of their own? Because the IMF's is not necessarily their program. It is a suggestion, a dictation by outsiders on how to improve the situation.

I think there has been a good deal of frustration over the inability of the Marcos government to establish an appropriate procedure to direct attention to its own internal economic difficulties.

Indeed, I think you would agree that unless that government is prepared to go along and initiate those reforms, all the recommendations of various outside agencies do not necessarily ensure that that will happen.

And I would refer that question to the panel as a whole, incidentally.

Mr. WOLFOWITZ. Fine, but let me just say that the principal focus of the Philippine Government in the economic area in the last few months has been quite naturally with the IMF negotiation.

While the program begins, as you said, with an IMF program, in the end what comes out of it has to be the program of the Government of the Philippines. It is our understanding that the Philippine Government has agreed with the IMF to take a significant number of very important stabilization measures.

A number of these will not be known until they are actually taken, for important reasons.

Mr. GREENLEAF. I really was going to underline the same point that the Secretary just made.

I think the fact is that whatever the government does in response to the discussions with the IMF is indeed the government's program. It is not some program that is simply brought to them by the IMF. And the point is, although we do not know the outline of the program, the fiscal aspects, the exchange rate, the various other financial and monetary responses, this indeed is the package that the government feels is important, and I think those are the kinds of responses, although we do not know now the specifics that are responsive to your question.

Senator MURKOWSKI. Let us be more specific. If indeed $26 billion has exited the country in 10 years or anything near that figure, that situation has to be turned around. Is there an acknowledgement from the Marcos government that there is a lack of confidence for investments in the Philippines?

Mr. WOLFOWITZ. Certainly I am not sure of anything that amounts to a formal acknowledgment of that fact, but there is no question that that problem is one of the problems that is at the heart of the kinds of reforms that the IMF is discussing with the government, and some of the actions that the government is expected to take, are designed precisely in order to permit the Philippines to recover foreign exchange, rather than having foreign exchange leave the country.

Senator MURKOWSKI. I will defer in just a moment to Senator Glenn, who has joined us, but first, it appears that we have had constructive suggestions on improvements both in the political area and the economic area in the Philippines, but again, we are reminded that it is their country, it is their problems.

And while we have certainly a significant interest, the cures have to be instituted through the Government of the Philippines, and regardless of our so-called recommendations or what we would wish them to do, we are indeed a long way from that becoming a reality.

From your testimony, I gather that the decision to continue to support the Marcos government is an administration policy entwined with the overall commitment and support of the Philippine people and the nation of the Philippines up to whatever points may dictate otherwise.

And the economic situation which has received a great deal of notoriety with regard to the Philippines is again one of assistance and recommendations and so forth, but not necessarily a constructive wish list of specifics that have to be carried out.

In other words, how do you reestablish confidence within country A, B, C, or D? You could do it a lot of ways. One is to tighten up on the graft and corruption that allegedly is in the Philippines.

I gather that the administration has not communicated necessarily a firm outline of: First, an economic recovery, and second, what we might do if the Marcos government did not get a handle on some of the things that we have been critical of within the Philippine nation.

Mr. WOLFOWITZ. Senator, I want to correct that impression, because in particular we certainly have communicated, as I said, both

ourselves and through various multilateral institutions, specific things that we think the Government of the Philippines needs to do in order to promote an economic recovery, including a very sensitive and important issue, the breaking up of the agricultural monopolies and restoring a greater element of free enterprise in the agricultural sector. That has been a prime topic on our bilateral agenda. It has been a prime topic on the agenda of the World Bank with the Government of the Philippines.

Senator MURKOWSKI. Has the Philippine Government agreed to it?

Mr. WOLFOWITZ. Not in our view sufficiently. As a matter of fact, that was one of our problems with the recent World Bank loan to the Philippines, but there is movement. There needs to be a lot more movement, however, and there needs to be a greater acknowledgment of the magnitude of the problem.

President Marcos has referred to the need to bring back, and I think his estimate was $1 billion that he referred to that is salted overseas. I am not sure I would agree with your $26 billion figure, but I think the figure is probably higher than $1 billion. The real point is, the way you bring that back is not somehow by coercing the people who have it, and by putting them under a new set of regulations, but the way to bring it back is by providing the kind of economic climate in which it comes back voluntarily.

We have had very specific discussions, and we will be continuing them.

Senator MURKOWSKI. It would be helpful for the record if the administration would submit for the record within the time that will remain, as the record will be open for at least 10 days, what its assessment of the amount of money that has been invested outside the nation of the Philippines for the last 10 years, because I am sure you have access to figures that are generally recognized.

Mr. WOLFOWITZ. We will do the best we can, Senator. I do not think we can get that number very precisely, though.

Senator MURKOWSKI. Yes, I recognize that.

[The information referred to follows:]

CAPITAL FLIGHT FROM THE PHILIPPINES

There is no agreed method of reaching an estimate of Philippine wealth abroad. Research among several USG agencies points to a very broad possible range of levels for the past decade. Figures on the amount of capital held abroad by Filipinos and the amount of capital flight from the Philippines can only be estimated, and none of the methods used to reach these estimates is entirely satisfactory. Several estimates are outlined below.

The "errors and omissions" item in balance of payments data can be considered as some indication of foreign exchange flowing in or out of a country that is not accounted for by the official financial system. The IMF's "International Financial Statistics" volumes, which contain data on Philippine balance of payments through the first half of 1983, show that for the 10-year period 1964 through 1973 a total of $1.014 billion in negative errors and omissions was recorded for the Philippines. The period from 1974 through the first half of 1983 records a negative total of $3.174 billion. To the extent that this item is a valid indication of capital flight, we can assume that some $4 billion has fled the Philippines over the past 20 years and that capital flight in the past decade was about three times greater than that of the previous 10-year span.

Another official source for Philippine funds held abroad is the Bank for International Settlements (BIS) which in its latest semiannual report lists total Philippine claims on BIS-area banks at $3.437 billion in mid-1983 and $3.263 billion as of the end of 1983. If we subtract from this the official Philippine reserves of $1.769 billion

in mid-1983 and $2.478 billion at end 1983 as recorded in the IMF's "International Financial Statistics" dated August 1984, the net Philippine-held deposits abroad would be $1.769 billion in mid-1983 and $2.478 billion at end 1983. These figures would not include real estate or other similar investments abroad.

President Marcos has publicly mentioned $1 billion "salted away abroad" but gave no indication of how he arrived at that figure. Philippine journalists and economists have devised a number of imaginative means to fix the amount of Philippine foreign holdings. Their estimates range from several million dollars to $30 billion, but their methods of arriving at these figures are very arbitrary.

For example, a Philippine journalist 2 years ago listed about 100 wealthy Filipinos with foreign real estate holdings. However, if the average holding was worth, for example, $300,000, this would amount to only $30 million. In another case, the Philippine press quoted a local economist as stating his personal estimate of money abroad was the size of the daily black market multiplied by 365. Since, at the time he was speaking, black market transactions were at $6 million daily, that figure was $2.2 billion. Another Philippine economist estimated the amount abroad as being one-third of all foreign borrowing less accrued interest and short-term borrowings, or about $6 billion. By far the largest estimate, $30 billion, was reached by another Philippine economist by assuming that an amount equal to 20 percent of all merchandise and non-merchandise exports does not return to the country. As these exports over the past 15 years have totalled $151 billion, he arrives at his arbitrary figure.

As these examples show, there is no agreed method to reach an estimate of Philippine wealth abroad, and hence, no agreed figure that can be put to that amount. Perhaps the "errors and omissions" provide the soundest estimate of capital flight, but that figure covers other than capital flight, e.g. real errors in bookkeeping and delayed export receipts. In the Philippines, as in other countries, hidden wealth remains difficult to trace.

Senator MURKOWSKI. Senator Glenn.

Senator GLENN. Thank you, Mr. Chairman.

I would like to follow up on the same line of questioning that you have followed. I would only comment that the growth of the NPA in the Philippines is not because all the people are happy. From testimony that we have previously had, the growth of the NPA is not because of any huge exterior Communist support for the NPA, or any major international operation going on.

So, that means that the people have lost a lot of confidence, and I have some of the same concerns that the chairman was just talking about. To put it on more personal terms, Mr. Wolfowitz, you are married and have a family. Let us say just for the sake of argument that you have all of your family wealth in the Riggs National Bank.

If the Riggs was going into a major Philippine investment, if they were going to put a billion or so into an investment in the Philippines right now and that bank's stability was going to be determined, and your financial stability right along with it was going to be determined by that, would you recommend that they go into the Philippines right now?

Mr. WOLFOWITZ. Senator, I think I have made it clear—I do not think we are arguing, at least I hope we are not—I think I have made it clear that the climate in the Philippines is not the kind of thing to attract investment at all. That is the basic problem. There is enormous dissatisfaction.

There are enormous economic inefficiencies that the government itself has introduced, and until those things change, the situation will get worse economically.

Senator GLENN. But how far are we going to go with this? You say we are going with economic aid, but what we are saying in effect is, whether it is Riggs Bank or not, it is all the taxpayers of this country who are going to put additional money into a situation

there where we have been unable to get the government to move to correct what is causing some of the difficulties.

Mr. WOLFOWITZ. Most of what we do has significant conditions attached to it. The most significant thing that is going on right now of which we are a part because we are a member of the IMF, and because we have a large input into what the IMF does, is the IMF standby loan. It will definitely have very tough conditions attached to it.

In fact, the conditions are so tough that we have been negotiating nearly a year and still do not have an agreement. I am hopeful that we will get an agreement, and the reason we will get it is because the Government of the Philippines understands the seriousness of the situation and understands that if it is to get the kind of assistance that the IMF assistance can provide, it is going to have to make some very basic changes.

Senator GLENN. I have a short statement that I would like to get into the record before my time is out.

I think we all agree that conditions in the Philippines warrant close attention by this committee. We have had serious economic difficulties compounded with many reports, just report after report after report, along the lines of what the chairman just quoted about varying amounts being taken out of the country, private accounts, other countries.

We do not even know the enormity of that, but there have been so many reports, we cannot ignore them. These have been pretty much on the part of President Marcos and his very favored friends, to put it in a nice light, and this is one of the major factors that has put the economy into a major depression.

I have been to the Philippines a number of times, and I have met with President Marcos. I met with Philippine officials here when they have been in Washington. I consider myself a friend of the Philippines.

But when you get into this kind of thing that comes out time after time, there has to be very major changes on the part of the Government of the Philippines, it seems to me, before we can expect the American taxpayers to get in and do a further bailout.

Hopes for democracy after martial law was lifted in 1981 remain elusive. Countless military abuses alienate millions from the government. A major Communist insurgency increasingly rages out in the countryside. We agree that what happens there is important to our interests, humanitarian, economic, and strategic. For example Clark and Subic are very key parts of our posture in the Far East. Where we begin to have differences is on how we can help.

I do not have any surefire cureall for what ails the Philippines. President Marcos' problems are enormous and complex. But it just seems to me that a very fundamental change in direction, while difficult, has to be made.

But we cannot solve the problems for the Philippines. Only the Filipinos can do that. Second, U.S. economic and military support in the absence of fundamental economic and political reform just flat will not be enough.

Third, continued military abuses of serious proportions create an environment in which the Communist insurgents thrive and grow—we have seen that taking place over the past year or so. It

leads me to the conclusion that we must resist a great temptation just to assist the Philippines simply on the promise of necessary reforms, just because they say, yes, we are working on this.

I think as friends of the Filipino people, and I repeat that as friends, and I consider myself that, and I think most members of this committee would consider themselves friends of the Filipino people, we have to have the courage to condition our aid on demonstrable proof of the government instituting basic reforms.

Hopefully, the executive branch will take such a position without undue prompting, and hopefully work closely with the Congress in formulating a bipartisan approach. I give you my pledge this morning that I stand ready and willing to work with you to whatever extent you wish to cooperate with us here in trying to work this thing out.

But I think if the administration just decides to go it alone and support the government without insisting on either reforms or an end to military abuses, then I will tell you this morning, I am afraid I will have to oppose you and fight for conditions imposed by Congress, and this will put us at loggerheads again as far as any bipartisan foreign policy goes.

Along with this, on a related subject, Mr. Chairman, I want to go on record as supporting the early public release of the outstanding report on the Philippines prepared by Carl Ford and Fred Brown of the committee staff. They made an extensive trip to the Philippines. They traveled all over the country in recent weeks.

I thought it was going to be released today. I do not know what has held it up. But I think we should give priority to this and clear any hurdles that remain this afternoon, so that we can distribute it to all members and the public this week.

So, I hope that that can be done.

Senator MURKOWSKI. I am advised, Senator Glenn, that that matter has been addressed, and we anticipate that it will be released very shortly.

Senator GLENN. Good. I hope we can do that.

Now, we have a history with Iran, China, Vietnam, Nicaragua, and Cuba where we saw insurgencies rising and unhappiness among major blocks of people. We in effect hung tough with our existing relationships, and we said, we are just going to support those people, and so we continued. We gave one thing after another in those situations, and refused to face up to what was actually happening.

I am not saying in any way that the Philippines is exactly the same, but there certainly is a precedent here that is very disturbing. We see a growing insurgency not from outside the country basically but from the people themselves.

We see rising difficulties within the country. It appears to me that our policy now is that we are going to just continue as before. We are going to give more support and more military help hoping to help them put down whatever difficulties around the countryside that have been having among the people.

If we are just continuing down that road with blinders, without insisting that our aid be contingent upon changing policy in the Philippines, which we have had all sorts of reports on as being less than we would like it to be, it seems to me we are heading down

the wrong track, and perhaps will see an ultimate result that is the same as has happened in some of these other countries.

That is more a statement than a question, but it indicates my concern about this situation, and the fact that we just have to get agreement with the Philippine Government on what changes are going to be made before we put massive additional amounts of taxpayer money in there, either for military or economic aid, it seems to me, and now is the time to do it, not to go ahead with the aid and let more of it get out of the country and add to that $26 billion the chairman was talking about.

I am very concerned that the administration is not that worried about it, and we are going to say, because we have had a relationship with the Philippines for all these years that we are just going to continue shoveling them money, that we will ask Congress for more billions for the Philippines, and will shovel it out there without real reforms.

Mr. WOLFOWITZ. Senator, I agree with most of what you said, with the very important exception that I do not agree with your characterization of our policy that we are providing massive support for the government without any conditions, and without any awareness of the depth of the crisis there.

I think I made clear in my statement just how serious we consider the situation there to be. I think I made clear, or I have tried to make clear over and over again that we have put conditions on what we give, that we give very strong advice and very strong urging for basic change, that we are not satisfied, that we do not believe the changes that have taken place so far are enough to deal with the depth of the crisis.

It is an exaggeration to characterize our support as massive and a mistake to exaggerate our leverage. The real place our leverage comes from is not from offering or withholding a particular piece of economic assistance usually as much as it comes from the fact that the basic problems the government faces—the basic problems the country faces—are not going to be solved except through basic economic reform.

Senator GLENN. How much of a relationship do you see between corruption in the Philippines and the sharp deterioration of the economy? How much impact does what someone called "crony capitalism" have on the economy of the Philippines?

Mr. WOLFOWITZ. Mr. Greenleaf can speak to that in more detail, but let me say what I have been saying over and over again, that we see the need for basic reform, particularly in the agricultural sector. We are talking about precisely the phenomena that you just described. It goes, unfortunately, further than just simply corruption, simply raking a certain amount off the top.

What has happened has been a whole restructuring of major sectors of the Philippine economy into the hands of single monopolies. That not only means corruption, which is a problem, but it means a massive distortion of basic incentives that ought to be operating, with the result that people do not even produce at all.

That loss, that cost, is probably even greater. Charlie, did you want to speak to it?

Mr. GREENLEAF. Senator, if I could make a couple of comments about the question you have asked, I would appreciate it. Relating

to the agricultural sector, I think it is true that for various reasons—you cited the crony issue—but it is basically a question of centralized regulation as well, in areas such as sugar, coconuts, and food grains.

In the discussions that we are having, and in the discussions——

Senator GLENN. By centralized, do you mean monopoly given to a friend?

Mr. GREENLEAF. Well, there are various kinds of monopolies. The National Food Authority, for example, is an authority which in our view pays prices that are lower than the market prices for the farmers in corn, wheat, and rice. The same would be true in the coconut and sugar areas, and the various proposals that are being debated within the Philippine Government also are being discussed in the consultations that are going on with bilateral as well as multilateral donors.

These focus on reform of those kinds of mechanisms, those kinds of centralized regulatory mechanisms that are a drag on the economy, and that have resulted in farmers not being paid adequate market prices for their products in these various agricultural areas.

I think there is a consensus developing that in fact changes should be made in these areas, and those are the kinds, for example, of subjects that are being discussed. But I would also want to make the point that in terms of our AID program, and we have been up here on a regular basis discussing the AID program with you and your staff, we are dealing, as the AID program exists now, on the economic side in the rural areas with the smallest farmers, with the most vulnerable people in the economy.

We are building schools. We are building roads. We are building local markets in rural areas. Schools, markets, and roads coming out of the economic support fund programs, the agricultural programs, the programs for public health in the rural areas are coming out of our development assistance.

So, we are very visible in the rural areas, and are primarily working with the people who are the poorest in the economy. The impact of that AID program—the AID program that we have, and the kind of AID program we are contemplating in the future—is very much in the rural areas that are the subject of the discussion today.

Senator GLENN. They are? How come then people have been turning more against the government as we have given additional help in building roads, and water, and all the other things that we are doing under the AID program? We are still seeing a major growth in the NPA movement. As I understand it, there are even parts of the country where the government on occasion has trouble moving into certain areas because they don't have full control. The NPA has more control in some areas than the central government.

That doesn't show a very good relationship, and that has been growing. It has been getting worse.

Mr. GREENLEAF. I think Paul is better able than I to comment on the various factors with respect to the insurgency, but certainly the kinds of things that we have been doing, and it has been my own experience from visiting the countryside, as your staff colleagues

have, that these are the kinds of things that people in the countryside want.

Senator GLENN. Well, it might have been worse had we not done that.

Mr. GREENLEAF. Precisely. That is my point.

Senator GLENN. But we are shoveling against the tide unless we have some major reforms. That is my point. Can you give us any examples of how the President's decreemaking power under amendment 6 has been used to help friends acquire fortunes?

Mr. WOLFOWITZ. That is one of the powers that the President has used in creating some of the centralized structures in the economy that contribute to what some might call crony capitalism. In fact, those decreemaking powers are one of the principal subjects of debate now within the Philippine Parliament, which is a much invigorated institution since the elections, and there even have been suggestions from various significant government spokesmen that maybe those practices will be changed significantly.

Senator GLENN. Do we see any improvement in that situation?

Mr. WOLFOWITZ. Let me say this. I do not think we have seen any improvement so far this year, but I am hopeful that we will see some improvement as a result of the IMF agreement.

Senator GLENN. If we do not see any improvement, are we willing to go ahead then asking for billions of dollars or whatever the amount is going to be for economic aid when we see that kind of decreemaking power that helps close friends, and it is still not being corrected?

Mr. WOLFOWITZ. Senator, we are not talking about billions of dollars.

Senator GLENN. What are we talking about?

Mr. WOLFOWITZ. In the case of the IMF, we are talking about several hundred million for a standby loan, and there would still be very tough conditions imposed upon that.

Senator GLENN. But that is still real money.

Mr. WOLFOWITZ. It is very much real money.

Senator GLENN. I believe my time is up. So let me say this. I know there are people here today in this room from the Philippine Government. I hope you will pass along our concerns in the dispatches you send back to the Philippines tonight after this hearing is over.

This is very serious, and we are going to have great difficulty helping the Philippines, and I hope you will quote me directly if you want. We are going to have great difficulty helping our friends in the Philippines if we do not see corrections in these things.

It is not just the administration telling you that. It is congressional concern also. We want to help. We have had a long history and relationship with the Philippines and the Philippine people.

We want to help, but we are not going to throw money down a rat hole if we see the abuses, such as abuses with amendment 6, abuses such as the chairman mentioned of $26 billion invested overseas by Marcos cronies. Even if that is off by a factor of two, it is still $13 billion out of the Philippine economy.

We have to see some of these things corrected if we are to have good, true American support for the Philippines, something which I personally want very much to see. It is important to us not only

from a humanitarian standpoint and a relationship with the Philippine people whom we admire and want to work with, but it is important to us from a strategic, military point of view also.

We know that. I have discussed that personally with President Marcos on my last visit to the Philippines. I visited Subic and Clark. So it is important to both our countries that we get this whole thing worked out. I hope we can do it and do it shortly, and that we do not have a lot of trouble getting some of these agreements made and acted on.

That is the important thing: acted on, so that we can have confidence in the Philippines and confidently say, yes, we recommend investment in the Philippines.

Thank you, Mr. Chairman.

Senator MURKOWSKI. Thank you, Senator Glenn.

Mr. Kelly, I have a question for you. In your testimony you made reference to the fact that the United States was looked to for military resources to defeat the insurgency, but the Communist Party, the NPA, seems to be doing quite well with their weapons acquisition by capturing military armaments from the AFP, the Philippine army sources.

This is an age-old story of insurrection, but are they not doing pretty well in getting all their weapons? We understand there has been no influence from other countries sending weapons in. Is that not an oversimplification of a more complex problem of what our assistance should be?

Mr. KELLY. Yes, Senator. Mr. Chairman, the NPA has obtained a sizable number of its weapons from the Armed Forces of the Philippines. A principal target, in fact, of the recently more enlarged attacks have been on very small bases for the purpose of obtaining weapons.

I am not sure that the NPA is doing all right in its weapons acquisition activity. I think there is a substantial number of would-be guerrillas who in fact are unarmed. But this is a part of the problem.

With respect to the United States providing material or resources to the AFP, though, our assistance is primarily in other areas beyond weapons. These include transportation, mobility, logistic support, and communications support.

The budget of the Armed Forces of the Philippines, which has gone down substantially, is spent almost entirely for personnel costs and fuel just to operate, and the only investment at all really comes from U.S. assistance. There is, of course, a necessity for that, so that the Armed Forces of the Philippines can be strong enough to defend themselves against those very attacks which would cause the loss of weapons.

Senator MURKOWSKI. Thank you.

With regard to the current debt of the Philippines, which has been testified to at this hearing, at least from the chair, in general terms of about $26 billion, it is my understanding that $625 million is currently due and in danger of being in default.

If indeed this is a fact, could not this default of the some $625 million trigger default on the total debt which is outstanding? And what, if anything, is the administration prepared to do to ensure that this current debt that is now due does not go into default?

Mr. WOLFOWITZ. That has been the basic thrust at the IMF negotiations. It is something that we have supported strongly over the last few months. In fact, most of this year. We had hoped that there would be an agreement earlier. We are now hopeful that one may in fact be close.

Senator MURKOWSKI. Well, what do we do as a government?

Mr. WOLFOWITZ. Beyond that, as a government, we have agreed that when the IMF is completed we can provide a temporary bridge loan before the IMF funds actually come in.

Senator MURKOWSKI. So we would then provide a guarantee or a bridge loan to ensure that the Philippine Government would not go into default which is owed to the United States as opposed to other foreign debt?

Mr. WOLFOWITZ. The principal burden is with the IMF. It is the IMF that has the bulk of the resources. Our contribution in a bridging instance would be a temporary one.

Senator MURKOWSKI. Are we asking for any consideration from the Philippine Government for the willingness to provide the bridge loan to the IMF?

Mr. WOLFOWITZ. We are asking for the fulfillment of the IMF conditions. Conditionality is being negotiated with and by the IMF.

Senator MURKOWSKI. That is true, but that would be apparent in the negotiated loan agreement, that they would have to meet the conditions of the IMF, but we are providing, I would assume, if my understanding is correct by your statement, a bridge until that happens.

Mr. WOLFOWITZ. It is only a matter of a few weeks, Senator.

Senator MURKOWSKI. I know this, but are we doing this with no consideration for other things?

Mr. WOLFOWITZ. This is one negotiation. Only one negotiation.

Senator MURKOWSKI. So we have not asked for any fulfillment of any desires that we may have for anything in the political or economic area in consideration for that bridge loan until the IMF can pick it up and rewrite it or bring it current?

Mr. WOLFOWITZ. No, sir.

Senator MURKOWSKI. Mr. Secretary, my point is this. We appear to have leverage to suggest and encourage basic reforms, but we evidently have not chosen to use that leverage.

Mr. WOLFOWITZ. No; the leverage is part of the whole negotiation. You can break the negotiation up into separate pieces, and I think in this case you can hopelessly complicate it. The bridge is a temporary thing. It helps to make it possible to reach some of the conditions that the IMF is asking for, which the Philippines have to meet in advance.

It is part of a single negotiation. It is not that there are no conditions attached to it. It is that the conditions are not separate from the overall package.

Senator MURKOWSKI. Do you agree that there is a perception that the United States has been propping up the Marcos government, and as a consequence of that, we have obtained an image that may be false?

How do you counter that image? Do you agree that basically that is a perception, a fair perception?

Mr. WOLFOWITZ. I do not think it is a fair perception. I am not even sure it is accurate to say that it is a widely held perception. There has been a tendency since we were the former colonial power in the Philippines to think that everything that happens in the country is due to our action. That simply is not true.

Senator MURKOWSKI. So you would say it is not the policy of our Government to prop up the Marcos regime?

Mr. WOLFOWITZ. We work with the Government of the Philippines. In the process of that we have, among other things, pushed very hard for policies that were not popular with the government.

I think that is well known among the people in the country. We have maintained contacts with very broad segments of Philippine society. I think it has been recognized that our influence over the last year has been a positive one.

Senator MURKOWSKI. In your opinion, would the decline of the economy be a fault of the political deterioration or situation, as the case may be, or is the political deterioration a consequence of the economic decline?

Mr. WOLFOWITZ. I think it is substantially both. I think that in the first instance——

Senator MURKOWSKI. I do not know that I agree with you.

Mr. WOLFOWITZ. Well, I think in the first instance the political problems precipitated a major economic crisis.

Senator MURKOWSKI. I would agree.

Mr. WOLFOWITZ. I think the causes there to some extent predated the political crisis. They lie in excessive borrowing. They lie in excessive centralization of the economy, though that had a political cause, so that goes back the other way.

But the precipitating event was the Aquino assassination, which was a political cause that led to a great instability, to a great flight of capital, which you mentioned a number of times here, and which made the other problems no longer manageable, and in fact had the additional unfortunate effect, I think, of putting the Philippines in a situation where they were not able to benefit from the world economic recovery just as it was beginning.

Now it goes back the other way. The economic crisis is so great that it is beginning to have significant political effects. One of the reasons why the insurgency has grown is because of significant hardship and unemployment in the rural sector. So the two problems feed one another, and they have to be dealt with together.

Senator MURKOWSKI. I want to commend you, Mr. Secretary, Mr. Greenleaf, and Mr. Kelly. I think the testimony which you have given here has been delivered with a good deal of insight into the implications for our relationship with the Philippines.

I do want to assure you and those who represent the nation of the Philippines of the concern of the Congress, and the Senate in particular, and the Foreign Relations Committee appropriately, in the sense of our obligation to the Philippines representing a commitment to the country and the people.

But it is evident that the Marcos government, as the Government of the Philippines, must relate and reflect on the manner in which it conducts itself in the eyes of the free world as a democracy, recognizing that indeed there are political problems and eco-

nomic problems which are not necessarily exclusive to the Philippines.

It is extraordinary to reflect on the prosperity of the other ASEAN countries with the exception of the Philippines. Unless internally there are appropriate actions taken, initiated within the governmental levels, it is a little difficult to expect the people and the nation to react by some other external process if indeed it is not reflected by appropriate examples being set within the government.

I would agree that this has been highlighted by the Aquino assassination. We do look toward the Agrava Board's report, which hopefully will put to rest a good deal of speculation on that particular issue. We do look forward to the administration communicating its response to that report once it has been made public in detail.

I would only communicate to you, Mr. Secretary and other members of the administration who are here before us today, that we do not look toward receiving any extraordinary surprises in the sense of assistance in an area other than a positive contribution to the economic recovery and stability, which is something that I personally feel we can play a significant role in.

If indeed the government does not help cure its own internal ills, the attitude of the Congress may be rather cool toward assisting a political recovery where there is a high degree of doubt regarding the government taking the necessary steps to rectify its own internal deficiencies.

And I do not think you would necessarily argue with that general statement.

I do want to commend you. I think your collective presentations have fairly addressed the administration's knowledge and sensitivity to the concerns without being labeled interfering with or necessarily propping up the current government.

So, with that profound statement, I would excuse you and wish you a good day.

I will now call the balance of our witnesses to the table. They represent the public sector.

[Pause.]

Senator MURKOWSKI. I would like to move right on with Prof. David Joel Steinberg, Brandeis University, Mr. Michael H. Posner, of the Lawyers Committee for International Human Rights, and Mr. Richard Buczynski of Wharton Econometrics.

We have heard from administration witnesses with reference to the policy of the Reagan administration toward the Philippines.

I am looking forward to hearing you experts from the private sector provide some detail for the committee on whether or not you feel an economic recovery can take place in the Philippines with the current climate which has been referred to as one of less than confidence by the investment community, with the flight of capital outside the Philippines.

Reference has been made to a certain amount of inefficiencies within the structure existing in the Philippines through various statements, with regard to graft and so forth. Professor Steinberg, you are the first name on my list. If you want to start, you may proceed, sir.

STATEMENT OF PROF. DAVID JOEL STEINBERG, BRANDEIS UNIVERSITY, CAMBRIDGE, MA

Mr. STEINBERG. Thank you, sir.

I am privileged to appear before the subcommittee to propose a way to revitalize the Philippine-American relationship. I come before you today as a private citizen, someone who has devoted over a quarter of a century to studying and writing about this relationship.

The bonds that link our two nations transcend trade, military bases agreements, and other standard bilateral issues. Eighty-five years ago, America conquered the Philippines and imposed its will on a maturing nationalist movement. We justified our imperialism as altruism, creating a colonial structure that was meant to dissolve itself, evolving in time into independence. The Philippines was to be a "showcase of democracy" by which the world could judge the efficacy of the American way. In the process, Filipinos came to cherish the bill of rights and to love democracy. A special relationship was formed that must now not be allowed to atrophy through geopolitical preoccupations or inattention. For better and for worse, we established a secular covenant. It is neither fuzzy liberalism or neoimperialism to remember that covenant and to posit the restoration of democracy as a central premise of American policy toward the Philippines. Ideological and historical links combined with economic and military interests to make the archipelago one of America's most important allies. Only by focusing on the policy objective of restoring democracy can we hope to achieve our other two central policy goals in the Philippines: The retention of a stable ally and the preservation of the bases.

The United States is both the world's most powerful nation and also a society that has always seen itself as "the last hope of mankind." Nowhere in the 20th century, except perhaps in postwar Germany and Japan, have we proselytized more fervently for our democratic beliefs than in the Philippines. When true constitutional democracy was destroyed by Marcos's declaration of martial law in 1972, American foreign policy suffered a serious defeat, one that was only partially understood at the time because of our preoccupation with our military, ideological, and geopolitical defeat in Vietnam. It has taken more than a decade to realize that, like Humpty Dumpty, a democracy once shattered is difficult to rebuild, and yet America has an obligation to help the Filipinos reestablish what the mass of Filipinos seem passionately to desire. Only in this way do we have the chance to prevent the bloodshed and mayhem that would dwarf our current problems in Central America. If chaos descends upon the Philippines, we will not have the luxury of standing aside, for entangling alliances and that "special relationship" will prevent it.

America must bear some responsibility, both by what she did and what she did not do, for much that exists today. The blessings and the sins of the fathers are visited to the second and the third generation. The destiny of the Philippine Islands, wrote Cornell President William Schurman, an early administrator, "was not to be a state or territory, but a daughter republic of ours—a new birth of liberty on the other side of the Pacific." In 1984, we in the United

States cannot deny the historical realities for which we are responsible, at least in part. The Philippines is a daughter republic of ours. The American objective today is not merely to protect narrowly defined interests, important though they be, but also to remain true to what America claims to value. Over the past decade, Ferdinand Marcos has argued that only through "constitutional authoritarianism" can the Philippines find the necessary internal discipline to structure its priorities, to manage its growth, and to find its way toward that secular utopia of economic progress and social well-being for which all modern nations seem to strive so desperately. He has seen democracy as wasteful, licentious, corrupt, and paralyzing. Thus, although he was produced by a democratic system, and has manipulated it with great skill, he appointed himself the reformer and redeemer. He claimed that he could free the Philippines from cronyism, oligarchy, and corruption.

American policy passively supported his declaration of martial law and subsequent policies because he was seen as a bulwark against communism, and because he permitted American economic, business, and military objectives to flourish. Marcos offered us stability continued, albeit more circumscribed, use of the bases and staunch anticommunism.

Until the Aquino assassination, he retained sufficient legitimacy to be the unquestioned President, despite all of the opposition's challenges over the constitutional and political anomalies of his position. He has lost his legitimacy, although not totally, and not necessarily permanently, since that murder most foul.

The technocrats, the middle class, and the urban intelligentsia have this past year withdrawn their support, taking to the streets for the first time. This may be one of the first social movements of the Third World lead by the privileged and sophisticated. The flight of capital, the bank crisis, the debt issue, the lose of the mandate of the modern sector, Marcos's ill health, the lack of a clear successor either within his administration or outside it, are all problems often discussed. The transfer of power has been the dominant issue in Manila and in Washington, but American policy seems paralyzed, uncertain, and reactive.

I respectfully submit that there is a way which allows us to remain true to our ideals and which avoids any suggestion that we must undercut the sitting Marcos government to accomplish them. We must not be caught in an Iranian type situation, and we must not become the lightning rod of Philippine frustration and displaced anger. The opposition now blames the United States for sustaining Marcos politically and for underwriting him economically. If the United States is not alert, we will soon become the butt of Marcos's hostility as he attempts to manipulate anti-American sentiment to retain power.

Moreover, my suggestion permits the United States to formulate a policy that can function today in the months and, if it so happens, in the years ahead, while Marcos remains in power, one that can continue naturally into a post-Marcos era, whether led by people now allied with the President or currently opposed.

My plan will be expensive, but it is cheap compared to the costs of relocating those bases, now estimated in many billions, even if we could find adequate alternate sites, and compared to the

human, fiscal, and diplomatic costs of a civil war in the Philippines.

America should establish a new foreign aid program that links additional and substantial funding to the restoration of democracy—the reestablishment of a truly independent judiciary, the writ of habeas corpus, the freedoms of speech, assembly, and the press, and a return to the democratic structure that has substance, and not simply external structure.

Does this represent unwarranted interference in the affairs of the archipelago? I think not. What I suggest would be an option for Marcos or others to adopt or reject. It gives sovereign choice where it correctly belongs. The United States must not prescribe any specific model of government for the Philippines. What the United States should say is that it is willing to invest money not only to maintain its bases and to preserve stability, but also to support democracy. Is this not what we did in Germany and Japan after World War II? Is this not a means by which America can say to the Philippines and the entire world that we stand ready to invest our treasure in your effort to recreate democracy?

If the Filipinos reject this offer, we and democracy would be the losers, but would we have suffered the kind of defeat for which we are ashamed? Would this be like our failure in Vietnam, where we never clarified the central objective that brought us there? Even if we are rejected, we would have won the affection of most Filipinos and probably have improved our chances to protect the bases more than current policy is likely to do.

I do not believe that the Filipinos will reject us and our offer. They want our support, and they need our money for development, just as they need the revenues from the bases. Here is a chance for us to use foreign aid creatively in a way that rekindles the idealism of the Marshall plan. Let Marcos become a hero, regaining some of the historical legitimacy that he craves by encouraging him to adopt this. Would that not be a triumph for everyone? If he cannot or will not adopt this, let my plan become a central part of the post-Marcos debate in the Philippines.

Some may claim that this is crude bribery. I would call it enlightened leverage. For a change, we have the chance to act before events overwhelm us. The concatenation of historical past and present realities makes it possible for this proposal to work in the Philippines. But the United States cannot simply deposit the money and walk away. To restate Clausewitz, aid must be an extension of diplomacy by other means. Every step and stage must be articulated first and verified after. Congress has already taken the first step by proposing front loading of the economic portions of the bases agreements. Now more needs to be offered on a massive scale. Philippine economic recovery requires it.

I refuse to accept the idea that American aid officials and diplomats do not have the toughness or brains to administer a program that will direct the money into productive development programs rather than into Swiss accounts. This must not be a boondoggle for the oligarchy. The people in Makati have enough.

I refuse also to accept the notion that American generosity is a thing of the past, something other generations understood, but now

lost on us. If we cannot help to restore democracy in the Philippines, is not democracy in real trouble elsewhere as well?

What I suggest therefore is a test of political will, a will that is shaped in part in this body by you. Congress and the executive must work out a sequential program that articulates openly and clearly what the United States is willing to give, provided the Filipinos meet unambiguous guidelines which they themselves should draft about the restoration of democracy and about the administration of the aid programs.

Two things are required from the American side to make this work. First, a bipartisan generosity, and second, a clarity and resolve to honor our commitments and see the process through.

Thank you, sir.

[Mr. Steinberg's prepared statement follows:]

PREPARED STATEMENT OF DAVID JOEL STEINBERG

I am privileged to appear before this Subcommittee to propose a way to revitalize the Philippine-American relationship. I come before you today as a private citizen, someone who has devoted over a quarter of a century to studying and writing about this relationship.

INTRODUCTION

The bonds that link our two nations transcend trade, military bases agreements, and other standard bi-lateral issues. Eighty-five years ago, America conquered the Philippines, and imposed its will on a maturing nationalist movement. We justified our imperialism as altruism, creating a colonial structure that was meant to dissolve itself, evolving in time into independence. The Philippines was to be a "showcase of democracy" by which the world could judge the efficacy of the American way. In the process Filipinos came to cherish the Bill of Rights and to love democracy. A "special relationship" was formed that must not be allowed to atrophy through geo-political preoccupations or inattention. For better and for worse, we established a secular covenant. It is neither fuzzy liberalism nor neo-imperialism to remember that covenant and to posit the restoration of democracy as a central premise of American policy toward the Philippines. Ideological and historical links combine with economic and military interests to make the archipelago one of America's most important allies. Only by focusing on the policy objective of restoring democracy can we hope to achieve our other two central policy goals in the Philippines: the retention of a stable ally and the preservation of the bases.

The United States is both the world's most powerful nation and also a society that has always seen itself as "the last best hope of mankind." Nowhere in the twentieth century, except perhaps in post-war Germany and Japan, have we proselytized more fervently for our democratic beliefs than in the Philippines. When true constitutional democracy was destroyed by Marcos's declaration of martial law in 1972, American foreign policy suffered a serious defeat, one that was only

partially understood at the time because of our preoccupation with our military, ideological, and geo-political defeat in Vietnam. It has taken more than a decade to realize that like Humpty Dumpty, a democracy, once shattered, is difficult to rebuild. And yet, America has an obligation to help the Filipinos reestablish what the mass of Filipinos seem passionately to desire. Only in this way do we have the chance to prevent the bloodshed and mayhem that would dwarf our current problems in Central America. If chaos descends upon the Philippines we will not have the luxury of standing aside, for entangling alliances and that "special relationship" will prevent it.

THE RELEVANT PAST

In 1898, William McKinley, riding a crest of imperial fervor and national pride, "put the Philippines," in his own words, "on the map of the United States...." He enthusiastically complied when Rudyard Kipling urged the Americans to "take up the White Man's Burden." His intention was "to educate the Filipinos, and uplift and civilize and Christianize them," even though the country had been predominantly Roman Catholic for three-hundred years. Finley Peter Dunne's caustic Mr. Dooley reminded Americans that "tis not more than two months since ye larned whether they were islands or canned goods." But whether it was the "voice of God" intoning Manifest Destiny or, in Richard Hofstadter's phrase, only the "carnal larynx of Theodore Roosevelt," America ratified this colonial effort by rejecting the Anti-imperialist League's and William Jennings Bryan's arguments against taking possession of the Philippines in the period prior to the election of 1900.

The United States achieved colonial control only after an unexpectedly bitter struggle, which Americans called The Philippine Insurrection and Filipinos called the Philippine-American War. The severity of that struggle startled Americans, challenged the assumptions that had prompted the initial takeover, and forced a policy reevaluation that led to self-liquidating colonialism. It has often been

said that the Philippines spent three-hundred years in a Spanish convent and fifty in Hollywood.

Filipinos speak English, believe in private enterprise and function socially, culturally and economically -- and before Marcos, politically -- through institutions that are analogous to those in the United States. Hundreds of thousands of Filipinos have been educated here and have fought under the American flag. For every American who died on the Bataan Death March, nine Filipinos perished. There is a Filipino diaspora of a million people in the United States. Carlos P. Romulo once wrote a book entitled, Mother America.

The special relationship, especially in Philippine terms, is based on kinship. William Howard Taft's unfortunate phrase "little brown brothers" did not then strike most Filipinos as condescending. American colonial policy defined the Filipinos as our wards. In the Philippine context that made America the ritual godfather, "the compadre." The obligations of family are central in the archipelago, and Filipinos responded with a debt of gratitude, utang na loob, when America lived up to its early promises about granting democracy and independence. It is for this reason in part that Filipinos fought so passionately in World War II. It would have been shameless, walang hiya, to do otherwise.

To Filipinos kinship relationships do not end when the child grows up. Filipinos nurture and love their grandparents rather than depositing them in old age homes as Americans are all too prone to do. Many Filipinos have never understood how America could give billions to former enemies like Japan and Germany, while being so niggardly with them. Preferential treatment for Americans, control over the peso, total sovereignty over bases, and many other demeaning demands were extracted from a new nation that was crippled and dependent on America for rehabilitation. Manila, second only to Warsaw, was the most destroyed city of World War II. We failed that test.

For the last decades many Americans have tried to minimize the kinship bonds that survive, to deny that there is still such a thing as a special relationship. During these same decades many Filipinos have felt anger, hurt and bewilderment; few have yet accepted that the special relationship is severed. Certainly Benigno Aquino felt that affinity. What exists today is a love-hate relationship of great intensity. As a capitalist country committed to economic development and dependent on foreign trade, the Philippines has required the support and investment of Americans. It has received in full the assets and liabilities of that investment. The Filipino ward has grown up into a proud, if impoverished, adult. There are proper and understandable limits to what role America can still have. A deep residue of suspicion identifies the American embassy with everything wrong in the Philippine nation. But the mere fact that we Americans appear as the source of so much power suggests the importance which many Filipinos attach to their older, richer and, often insensitive big sibling.

One of the interesting ironies of the Philippine-American relationship is that, contrary to popular belief, America yielded its real power to shape the Philippines almost from the very beginning of the relationship. To establish "compadre colonialism" the Americans struck a tacit deal with the emerging, conservative oligarchy. In exchange for the elite's support, the Americans agreed to turn power over to these men "of education, intelligence and property." The local elite was given a monopoly of power and the Americans a means to convert Filipino hostility into friendship. The most famous of this elite was Jose Rizal, executed by the Spanish in 1896 just prior to the American era. He spoke for his class when he wrote that "reforms, if they are to bear fruit, must come from above, for reforms that come from below are upheavals both violent and transitory." The American colonial administrators saw this oligarchy as a natural ally, and neither side ever regretted this tacit deal.

What it meant, however, was that American authority was withdrawn as soon as

peace had been restored and there was the possibility of granting authority to those men of property and education. Americans never imposed meaningful land reform, for example, because it threatened the economic interests of this oligarchy. By 1903, local elections were held and power began to flow away from the governor-general toward this elite. Even without American support these men would have gained power, since the congruence of money, training and power gave them vast advantages. But the American policy of accommodating to the "customs, habits and even prejudices" of the society, as these privileged men defined it, prompted William Howard Taft to worry by 1908 that his policy was "merely to await the organization of a Philippine oligarchy or aristocracy competent to administer and turn the Islands over to it." Many of today's Filipino elite are literally the children and grandchildren of those earlier oligarchs. American Progressive administrators were sure that modern education, if properly given and offered to all, would eventually break "the feudal relation of dependence which so many of the common people now feel toward their wealthy or educated leaders." But by not altering land ownership and reworking existing social patterns, they surrendered the possibility for meaningful change of the sort that MacArthur introduced in post-war Japan. Americans have always been awkward in the use of power. The social inequities, land ownership issues and maldistribution of wealth that today attract Filipinos to the New People's Army have their roots in the lost opportunity of an earlier generation.

THE NPA AND THE MILITARY

The NPA, like many millennial movements, both secular and religious over the centuries, is a peasant reaction to poverty, to inequity, and to loss of security as change destroys old values and beliefs. It is not the source of today's problem but a consequence of it. Local grievances, government brutality, insensitivity, blatant corruption and nepotism have all allowed this ideological remnant

of a 1960's student-radical Maoism to flourish. As the NPA has fanned out across the country, it has seemingly dropped much of its somewhat dated rhetoric and gained real support from people who feel threatened and who see famine, unemployment and hardship as their likely lot. It has the potential to become a destabilizing force in the society, but it prospers primarily because Marcos has given it so much opportunity to prosper. Conditions are terrible, getting worse, and everyone knows it. On sugar plantations, in coconut areas and elsewhere the cronies have plundered and the peasants are angry. The solution, however, is not to support repressive, right-wing, military brutality but to work to alleviate the underlying causes. If Wolf Ladejinsky had been listened to in 1957 in Vietnam and if land reform had been instituted, the outcome of that war might have been different. Sometimes history can instruct; here is a clear case. The NPA will spread like a metastasizing cancer until the illness of social injustice is properly addressed.

Since Marcos justified martial law by claiming the threat of communist insurgency, he has created his own monster. We have supported him in this by funding his effort to enlarge the army. The Philippine military until martial law accepted the inherited notion that civilian authority always prevailed. That was the lesson learned when William Howard Taft gained hegemony over Arthur MacArthur. Whether it still accepts this is unclear. The Philippine military has been carved like Adam's rib out of the American. Many of the officers were trained in America, and many more have close working relations with their American counterparts stationed at Clark, Subic and elsewhere. There is a fraternal quality to this, augmented by the Philippine military's total dependence on American hardware and methods.

The role of the American military in the archipelago has a long and mixed history. The brutality of the Philippine-American war pitted American soldiers against Filipinos. Arthur MacArthur, Douglas's father, described this prototype of a war of national liberation as a system depending "upon the almost complete unity of action of the entire native population." The American soldiers spoke of civilizing

with a Krag rifle and sang about the monkeys having no tails in Zamboanga. The Bureau of Insular Affairs was always administratively in the Department of War. Manuel Quezon made Douglas MacArthur America's only field marshal, designing for him his famous uniform. Douglas MacArthur was revered and embodied all that Filipinos cherished in America. His place in the Pantheon is secure.

While Admiral Dewey, John Hay and Theodore Roosevelt saw the possession of Manila as a strategic foothold in the Far East, by 1908 Theodore Roosevelt also saw the islands as "America's heel of Achilles" in any struggle with Japan. In 1942 the Japanese conquest confirmed his judgment. The Philippines was massively attacked precisely because the United States maintained major bases there. Even today the Philippines is more vulnerable because Clark and Subic Bay still exist. When independence was granted in 1946, the United States retained total sovereignty over those bases and the vast tracts of land that surrounded them. They were imperial satrapies ruled by American officers only hazily aware of Filipino sensitivities. They have been a constant source of friction and a paradigm of the love-hate relationship. The late Claro Recto, a vigorous critic, wrote "not only were the bases unnecessary for our protection, they were derogatory to our sovereignty."

For the Americans the bases are increasingly of vital strategic importance, especially Subic Bay, the home port for the 7th fleet. For the Filipinos the bases are of vital economic importance. Subic alone employs almost twenty thousand Filipinos and the direct and indirect impact on the economy is substantial. Through American and Filipino employees hundreds of millions of dollars flow into the economy. The Veteran's Administration supplies additional dollars. The important point here is to recognize the joint benefit in sustaining this arrangement. America wants the bases for its own purposes primarily, even though the American shield theoretically protects the Philippines. America should pay handsomely to protect this national interest. The Filipinos want the ripple effect income, the jobs, the

access to dollars, the black market, and the economic and military aid provided as part of the Bases Agreement. This pragmatic mutuality of interest ought to permit the bases to recede as a target of friction, provided the Americans do not appear to be buttressing a military dictatorship and provided that the bases do not get entangled in any domestic struggle.

THE DILEMMA

In sum, America bears some responsibility, both by what she did and by what she didn't do, for much that exists today. The blessings and the sins of the fathers are visited to the second and the third generation. "The destiny of the Philippine Islands," wrote Cornell President William Schurman, another early administrator, was "not to be a State or territory...but a daughter republic of ours— a new birth of liberty on the other side of the Pacific." In 1984 we in the United States cannot deny the historical realities for which we are responsible, at least in part. The Philippines is a "daughter republic of ours."

The American objective today is not merely to protect narrowly defined interests, important though they be, but also to remain true to what America claims to value. Over the past decade Ferdinand Marcos has argued that only through "constitutional authoritarianism" can the Philippines find the necessary internal discipline to structure its priorities, to manage its growth, and to find its way toward that secular utopia of economic progress and social well being for which all "modern nations" seem to strive so desperately. He has seen democracy as wasteful, licentious, corrupt, and paralyzing. Thus, although he was produced by a democratic system and had manipulated it with great skill, he appointed himself the reformer and redeemer. He claimed that he could free the Philippines from cronyism, oligarchy and corruption. American policy passively supported his declaration of martial law and subsequent policies because he was seen as a bulwark against communism and because he permitted American economic, business and military objectives to flourish.

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Marcos offered us stability, continued, (although more circumscribed), use of the bases, and staunch anti-communism. Until the Aquino assassination, he retained sufficient legitimacy to be the unquestioned President, despite all of the opposition's challenges over the constitutional and political anomalies of his position. He has lost his legitimacy, although not totally and not necessarily permanently, since that murder most foul.

The technocrats, the middle class and the urban intelligentsia have this past year withdrawn their support, taking to the streets for the first time. This may be one of the first social movements in the third world led by the privileged and sophisticated. The flight of capital, the bank crisis, the debt issue, the loss of the mandate of the modern sector, Marcos's ill health, the lack of a clear successor either within his administration or outside it are all problems often discussed. The transfer of power has been the dominant issue in Manila and in Washington, but American policy seems paralyzed, uncertain, and reactive.

A SOLUTION

I respectfully submit that there is a way which allows us to remain true to our ideals and which avoids any suggestion that we must undercut the sitting Marcos government to accomplish them. We must not be caught in an Iranian type situation and we must not become the lightning rod of Filipino frustration and displaced anger. The opposition now blames the United States for sustaining Marcos politically and for underwriting him economically. If the United States is not alert, we soon will become the butt of Marcos's hostility as he attempts to manipulate anti-American sentiment to retain power. Moreover, my suggestion permits the United States to formulate a policy that can function today, in the months and, if it so happens, in the years ahead while Marcos remains in power, one that can continue naturally into a post-Marcos era, whether led by people now allied with the President or currently opposed. My plan will be expensive. But, it is cheap compared to the

costs of relocating the bases-- now estimated in many billions even if we could find adequate alternate sites-- and compared to the human, fiscal and diplomatic costs of civil war in the Philippines.

America should establish a new foreign aid program that links additional and substantial funding to the restoration of democracy-- the re-establishment of a truly independent judiciary, the writ of habeas corpus, the freedoms of speech, assembly and the press and a return to a democratic structure that has substance and not simply external structure. Does this represent unwarranted interference in the affairs of the archipelago? I think not. What I suggest would be an option for Marcos or others to adopt or reject. It gives sovereign choice where it correctly belongs. The United States must not prescribe any specific model of government for the Philippines. What the United States should say is that it is willing to invest money not only to maintain its bases and to preserve stability but also to support democracy. Is this not what we did in Germany and Japan after World War II? Is this not a means by which America can say to the Philippines and the entire world that we stand ready to invest our treasure in your effort to recreate democracy? If the Filipinos reject this offer, we and democracy would be the losers. But would we have suffered the kind of defeat for which we are ashamed? Would this be like our failure in Vietnam where we never clarified the central objective that brought us there. Even if we are rejected, we would have won the affection of most Filipinos and probably have improved our chances to protect the Bases Agreement more than the current policy is likely to do.

I don't believe that the Filipinos will reject us and our offer. They want our support and they need our money for development just as they need the revenues from the bases. Here is a chance to use foreign aid creatively in a way that rekindles the idealism of the Marshall Plan. Let Marcos become a hero, regaining some of the historical legitimacy that he craves by encouraging him to adopt this.

Would that not be a triumph for everyone? If he can't or won't, let this be a central part of the post-Marcos debate in the Philippines.

Some may claim that this is crude bribery. I would call it enlightened leverage. For a change we have the chance to act before events overwhelm us. The concatenation of historical past and present realities makes it possible for this proposal to work in the Philippines. But the United States cannot simply deposit the money and walk away. To restate Clausewitz, aid must be an extension of diplomacy by other means. Every step and stage must be articulated first and verified after. Congress has already taken the first step by "front loading" the economic portions of the Bases Agreements. Now more needs to be offered on a massive scale. Philippine economic recovery requires it.

I refuse to accept the idea that American aid officials and diplomats don't have the toughness or brains to administer a program that will direct the money into productive development programs rather than into Swiss accounts. This must not be a boondoggle for the oligarchy. The people in Makati have enough. I also refuse to accept the notion that American generosity is a thing of the past, something other generations understood but now lost on us. If we can't help to restore democracy in the Philippines, is not democracy in real trouble elsewhere as well?

What I suggest, therefore, is a test of political will, a will that is shaped in part in this body by you. Congress and the Executive must work out a sequential program that articulates openly and clearly what the United States is willing to give provided the Filipinos meet unambiguous guidelines, which they themselves should draft, about the restoration of democracy and about the administration of the aid programs. Two things are required from the American side to make this work: first, a bi-partisan generosity and second, a clarity and resolve to honor our commitments and see the process through.

In 1965, Ferdinand Marcos said in his first inaugural address, "The Filipino,

it seems, has lost his soul, his dignity, and his courage. Our people have come to a point of despair. We have ceased to value order." Marcos went on to note that the "government is gripping the iron hand of venality, its treasury is barren, its resources are wasted, its civil service is slothful and indifferent, its armed forces demoralized and its council sterile." Having listed the problems that he then saw, Marcos summoned his nation: "Not one hero alone do I ask from you, but many-- nay, all." The challenge for Filipinos twenty years later is greater than it was then, because in the meantime the country has also lost its freedom and democratic legacy. At the beginning of this century, Mr. Dooley wryly observed that the Philippines is "a poverty-sthricken counthry, full iv goold an' precious stones, where th' people can pick dinner off th' threes an' ar-re starvin' because they have no stepladders." Is it not in every way in America's interest to help supply those stepladders, while encouraging a return toward political freedom? Paradise will not be regained nor will utopia be found, even if the program is a success, but something of real importance for both Americans and Filipinos will have happened nonetheless. In 1976 Benigno Aquino, then in his third year in jail, wrote the following poem:

I am burning the candle of my life
in the dark with no one to benefit
from its light.

The candle slowly melts away
soon its wick will be burned out,
and the light is gone!

If someone will only gather
the melted wax, re-shape it,
give it a new wick--
for another fleeting moment
my candle can once again
light the dark
be of service
one more time
and then...

Goodbye.

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Senator MURKOWSKI. Thank you very much, Professor Steinberg. You were right on the money with your time, and I commend you.

I am going to, as is the prerogative of the chairman, depart from our regular procedure, and ask a couple of questions with regard to your testimony.

You indicated the restoration of democracy, and you proposed how to institute this, but by the same token, since the Philippines are an independent nation, and have established themselves with a constitutional, democratic form of government, it is very difficult to reconcile, in effect, their independence, and the suggestion that we restore their democracy.

I find an incompatibility in that argument which suggests on one hand assistance, and on the other, interfering in affairs that are indeed under the authority and appropriately the influence of the Filipino people. You generalized a bit on that. I wonder if you might indicate how you anticipate that this could indeed be accomplished, because it seems to be a contradiction in terms.

Mr. STEINBERG. I do not believe so, sir. You yourself asked the administration witnesses to what degree they do see themselves as buttressing the current administration. I would answer rather differently than they did to that query.

We are now viewed, rightly or wrongly, as playing a disproportionate role, and I think it is perfectly fair for us to say to both the opposition and to the Marcos government, we offer you aid with some conditions, and the conditions are, a restoration of a democratic procedure according to your own definition.

I myself do not believe that the raising of martial law in the Philippines by President Marcos restored the system as it was. I would not argue, therefore, that democracy exists in the Philippines at this point. I think Senator Glenn correctly pointed to one of the key provisions that allows President Marcos to rule basically by fiat.

If we are going to put our treasure into the Philippines, and both you and Senator Glenn are raising this question, I think we have a right to extract some kinds of responses from them. They have to articulate those responses, but we can ask for them before we pay.

Senator MURKOWSKI. I thought your answer was very well stated. With regard to our bases, and the fact that we, as you suggest, could perhaps set up some type of monetary assistance to provide for stabilization both of the political and economic aspect, have we not already done that by the increase in negotiated amounts for the utilization of those bases?

I think last year it went from $100 million to $180 million rent per year, which was an increase from $500 million previously to $900 million over a 5-year period, and this additional amount has gone into the government for whatever appropriate purposes the government may so deem, but it does not seem to have resolved into any consideration of the growing economic problem, let alone what the administration refers to as an improving political problem.

Mr. STEINBERG. First, sir, I think both the American Government and the Philippine Government would probably chafe at your use of the word "rent."

Senator MURKOWSKI. I am inclined to agree with you.

Mr. STEINBERG. Let me remind you that the——

Senator MURKOWSKI. All right. "Consideration."

Mr. STEINBERG. Consideration. Remember that President Ford and Mr. Kissinger negotiated a bases agreement at a $1 billion figure which was then in renegotiation lowered by President Carter for much less.

Now, the military and economic portions of the bases agreements are only part of our total aid. What I am proposing is a substantial increase on top of that, an increase which would add a substantial additional amount of money to help right an economy which has gone crazy. I do not believe the Philippine Government has the political will or economic muscle to control what is happening.

In that situation, I think the United States is going to be compelled to protect its own investment and to invest more.

Senator MURKOWSKI. When you say political will, why does it not have the political will? Because, after all, that is the basis for the political survival. You survive if you have the will to respond to change, and change is taking place in the world, and it is taking place in the Philippines. If there is not the flexibility, then it affects survival.

Mr. STEINBERG. President Marcos is an old and sick man. The power of his administration is spent. He is not showing the kind of leadership potential right now that he had at an earlier point, and I am not sure that there is any desire to change a system which has been both comfortable and now very familiar to a great many people inside the system.

Senator MURKOWSKI. Well, if that were to be the case, and I am not suggesting that your generalities or specifics that have been stated are indeed the case, what is your assessment of the succession that is at hand or likely to occur if in the event there should be a change for reasons of health or other reasons?

Mr. STEINBERG. I can speculate on that, sir, and I am willing to do so. Historians are better at looking back than looking forward.

Senator MURKOWSKI. Please do it quickly.

Mr. STEINBERG. The more likely scenario is a military takeover of a direct or indirect sort within a partially constitutional framework. We are likely to see, therefore, an aggravation of the NPA conflict and a growing polarization of the society leading to a chaos which this Government, the U.S. Government, should do everything in its power to prevent.

Senator MURKOWSKI. You have not exactly made yourself clear in my opinion as to which course of action we should take, recognizing that indeed we have, one, a government that is in existence, as opposed to an unknown situation that may occur at any given time.

Do we support the existing government under terms of mutual agreement, or do we suggest that that is not going to work because you cannot restore democracy, as you state, under the Marcos government, so we must pursue the alternative?

Mr. STEINBERG. No, sir. I am not saying that. I am proposing something slightly different. I am saying that we start with President Marcos. We offer a Shultz plan, which would be a mini-Marshall plan, in which we say first to the government, here is an opportunity to reverse field. Senator Glenn correctly asked the ad-

ministration, what are we doing to protect our investment? This is saying that we care. It is important to us. We have interests.

Senator MURKOWSKI. All right. Now, let us assume that we do that and they do not respond in a way that we feel is adequate. Then we have to stand up and be counted in the sense of withdrawing assistance and so forth, which I think you would agree would probably be devastating to the Marcos government and very beneficial to the NPA.

Mr. STEINBERG. Maybe, sir. What we are doing now is polarizing the society and giving people in Makati or Quezon City no option but either to go to the hills or see us propping up the Marcos government. So what I am trying to say is that there may be a middle ground by which and through which the United States can help shape the post-Marcos agenda of the Philippines.

Let us assume President Marcos has rejected my plan. We come back to the people and his successors because we care about what happens in the Philippines and offer it again. Perhaps this is no panacea. Perhaps there is no solution here. But we did not suceed in Iran, sir, and we did not succeed in Vietnam, as both you and Senator Glenn, I think, suggested. We have been reactive far too often and ahead of events far too infrequently.

This is one conceivable way, at least, of trying to keep the agenda one which we want rather than one which the NPA wants. And I am sorry most of the administration representatives seem to have left before they had a chance to hear the public witnesses, because I am not sure they are listening.

Senator MURKOWSKI. I am sure, Professor Steinberg, that there are representatives of the administration still with us who will promptly communicate your position, and I think it is one that deserves a good deal of consideration and discussion as to just which of the alternatives we are prepared to pursue.

I personally agree that we have a leverage. We certainly have had an opportunity to learn by experiences in other areas of the world and apply them when we see deterioration, and I think this is certainly an appropriate time for the administration to reflect on those previous lessons.

We will move on now. We have maintained about 8 minutes for the testimony, and I will adhere to that. I think we do have time adequately to hear our two remaining witnesses, Mr. Michael Posner and Mr. Richard Buczynski, and to allow for questions for them as well, and still adjourn the hearing at about 12:30.

I am reminded that Senator Kennedy has a statement which he asked be entered into the record, and it will so be noted.

[Senator Kennedy's prepared statement follows:]

PREPARED STATEMENT OF HON. EDWARD M. KENNEDY, A U.S. SENATOR FROM MASSACHUSETTS

I congratulate the Senate Foreign Relations Committee for holding these hearings on recent events in the Philippines. The Committee's concern is timely; there are many questions outstanding about the recent elections in that country and about the investigation being conducted of the circumstances of Benigno Aquino's death. I hope these hearings will help shed light on these important issues.

More than 1 year after the assassination of Filipino democratic leader Benigno Aquino, the official commission of inquiry into the circumstances of his death has yet to issue the long-awaited report of its findings. Although the independence and

impartiality of the Agrava Commission are questionable, one thing is clear: the official version of the event—that Aquino was shot by Rolando Galman, a lone gunman acting on behalf of the Communist Party—has been convincingly discredited by the testimony of numerous witnesses. All the available evidence points to a plot involving top officials in the Philippines Armed Forces.

Although the responsibility for the assassination remains unresolved, it nevertheless became a catalyst for awakening the democratic movement in the Philippines. Millions of Aquino's fellow citizens have taken to the streets in the last year to protest his assassination and to demand an honest accounting for his death and a return to a more representative political system.

President Marcos' willingness to open up the political process and to provide the Filipino people the opportunity peacefully to determine their own future was tested by his conduct of the 1984 National Assembly elections. The results were a partial success for the cause of democracy in the Philippines. Although some results are still in dispute, the opposition appears to have won at least 59 seats in the 200-member National Assembly, compared with only 13 in the previous Assembly. Popular interest in the elections was demonstrated by the turnout of more than 80 percent of eligible voters, despite a boycott campaign by some opposition groups. Moreover, an estimated 200,000 Filipinos volunteered to monitor polling places—a significant factor which probably was responsible for the opposition's gains.

There were, however, charges of rampant fraud in some areas. The Government of the Philippines has downplayed the extent of the irregularities as being typical for a developing country. The opposition claims that electoral fraud prevented it from winning a majority of seats in the Assembly. Although Cardinal Sin, the Archbishop of Manila, called the elections "the freest, the cleanest and the most honest" since 1972 and among the best since World War II, he also said: "I wish I could say the government stood four-square behind the ideal of clean elections, but the preponderance of evidence shows otherwise." The leader of the Citizens National Movement for Free Elections, which organized the volunteers to monitor the voting, has said that the elections were generally honest in those areas where it has participated as observers, but fraud was extensive in other areas. Reports by Western journalists corroborate this claim, especially in the provinces of Tarlac, Cebu and Antique and in some districts of Manila.

Moreover, much more needs to be done to democratize the political system. The opposition's gains in the Assembly do not affect many of President Marcos' authoritarian powers. He can still issue decrees which bypass the legislative process, and he can dissolve the legislature by proclaiming an "emergency." The opposition has the necessary 40 votes to initiate impeachment proceedings, but it lacks the votes to restrict Marcos' authoritarian powers by amending the Constitution.

The political turmoil that followed the Aquino assassination also exacerbated the Philippines already serious economic problems. In contrast to rapid economic growth elsewhere in the region, the Philippines GNP is expected to fall 6 percent this year and inflation is soaring to nearly 50 percent. With confidence in the country's political future waning, capital has been fleeing abroad and new investment has fallen significantly. Even the Philippines business community is now publicly calling for political reforms, especially an end to Marcos' cronyism and decree-making powers.

Tortuous negotiations with the IMF for an economic stabilization program and a plan to reschedule the Philippines $26 billion foreign debt are reportedly near completion. But economic measures alone will not solve the Philippines' economic difficulties, because the root causes for the Philippine economic difficulties are largely political. It is doubtful that President Marcos yet recognizes the need for political reform to restore a calm climate and investor confidence in the future.

The deterioration of the economy, as well as the nepotism and corruption of the Marcos regime, are fueling a growing Communist insurgency in the countryside. There are also disturbing reports of human rights abuses by the military, which inevitably broaden the insurgency's support.

What are the implications of all this for United States policy? U.S. military facilities in the Philippines play a key role in supporting U.S. policy in the region and are not easily relocated. The United States is the major foreign investor in the Philippines and the most important holder of its external debt. A continuation of present economic and political trends would thus undermine important U.S. strategic and economic interests.

The U.S. presence in the Philippines, our military and economic aid and our close historical association give us an unusual degree of influence in that country. I believe we should use this influence to persuade President Marcos to accept further political reforms which will return true democracy to the Philippines and which

will, once again, give the Filipino people a real opportunity to participate in the decisions that affect their lives. Many Filipinos look to the United States for leadership in finding solutions to the present crisis. Our failure to promote peaceful political change would mean continued political turmoil, economic collapse, growing anti-Americanism and a spreading communist insurgency.

I sponsored, and this committee adopted, an amendment to the fiscal year 1985 Foreign Assistance Act calling on the United States Government to take into account the conduct of the investigation into the Aquino assassination and the fairness of the 1984 National Assembly elections in the conduct of its relations with the Philippine Government. A similar resolution was passed in the House by a vote of 413-3. I continue to believe that the way the Aquino assassination investigation is resolved and the necessity of further steps toward democratization of the political process should have a major effect on our relations with the Philippine Government

Senator MURKOWSKI. Please proceed.

STATEMENT OF MICHAEL H. POSNER, EXECUTIVE DIRECTOR, THE LAWYERS COMMITTEE FOR INTERNATIONAL HUMAN RIGHTS, NEW YORK, NY

Mr. POSNER. Thank you, Mr. Chairman.

I have a written statement which I will submit for the record, and which I will summarize briefly.

Senator MURKOWSKI. It will be printed in full.

Mr. POSNER. Thank you.

Senator, the first point I would like to make is that the human rights situation in the Philippines is both critical and deteriorating. We have heard some reference to it this morning.

The Philippines today is characterized by a military, an armed forces of over 250,000 people who are engaged in daily military operations that have resulted in a number of political killings, disappearances, and torture. Torture is now a routine practice of the Philippine military.

In one area of the country, Mindanao, the military abuses have now reached epidemic proportions. It should be pointed out also, I think, that the military is reacting to an increasingly aggressive insurgency, the New People's Army, which has been more violent in the last year than it has ever been in the past.

But the military abuses are not the only aspect of the human rights problem in the Philippines. As has been pointed out today by Senator Glenn, President Marcos remains firmly involved with the national security situation, and under amendment 6 has the ability to enact decrees, including decrees which govern arrest and detention procedures.

This is a very important issue now in the Philippines, and I was disturbed that the administration made no mention of the ongoing debate in the Philippines about amendment 6.

Secretary Wolfowitz suggested that we should become involved in issues only when the Filipinos themselves are concerned. This is clearly an issue that has been brought up time and again in the political debate there, and I think it deserves a place on our agenda as well.

The second point I want to make is that the human rights situation has to be viewed in the context of the economic, political, and strategic crises that we have discussed for most of this morning. I think it is fair to say that each of those three areas is affected by the human rights violations.

We have heard constant references to the capital flight that resulted from Senator Aquino's assassination last year. I think a more accurate characterization might be that the general political and social instability of the country has resulted in part, at least in part, in the economic difficulties.

Politically, the administration would have us believe that the elections held this spring represent a major step forward, and perhaps suggest that the other problems are going to solve themselves. I think that is inaccurate. We need to press, as Ambassador Wolfowitz suggested, for institutional reforms.

By that I mean discipline of the armed forces, the restoration of an independent judiciary, prosecution not only in the Aquino case but in thousands of other cases where military abuses have been reported, habeas corpus petitions filed and no action ever taken.

There is, in short, a long agenda of political issues, human rights issues that I think our Government needs to take up.

The final point is that, as Senator Glenn said eloquently, the security situation and the growing strength of the NPA is at least in part the result of the human rights abuses. Each day's military operations and abuses create a new pool of recruits for the NPA. There can be no doubt that their ranks have swelled dramatically in the last 2 years, and that is in part the result of overreaction by the military.

One can only be concerned as the NPA becomes increasingly strong and bold that the military will react in stronger and stronger fashion, and the abuses will not only continue at the present level, but actually escalate. We have to be aware of that, and we have to be in a position to respond.

Having said all this, I think the United States has responded improperly in two respects. First, in the last several years, there have been a number of symbolic expressions of support for President Marcos. Undoubtedly there are quiet diplomatic efforts in a different direction, but quiet diplomacy is not heard by the Philippine people.

I think they view the symbolic embrace of the Marcos government as in part a signal that the U.S. sanctions or at least is willing to tolerate the abuses of human rights. That is a terrible mistake.

Second, we have coupled these expressions of support with a massive aid package, a package of economic and military aid that has virtually no human rights conditions. Filipinos often ask us why aid conditions are imposed on Haiti, Chile, Pakistan, and El Salvador and so many other countries, yet nothing is done with regard to the Phillipines.

I have two very specific proposals. One relates to a law that we now have on our books, section 660 of the Foreign Assistance Act. It prohibits direct military assistance to national police forces. Despite the terms of the law, which are quite clear, U.S. military aid is going to the Philippine constabulary, which is the national police force of the Philippines.

The administration has responded in different ways to this charge, but the aid continues to flow, and I think we, and you and the Congress in particular, ought to monitor the future aid and make sure that section 660 is enforced.

Second, I think there needs to be some serious consideration of making future aid contingent on or at least having some kind of specific human rights tests in our review of future legislation toward the Philippines. I think the legislation ought to be as specific as possible. We ought to be looking for concrete tests that are attainable.

It does not do any good to say that we want improvements in human rights or progress. We ought to take concrete examples of things that we want done, like the repeal of amendment 6, or a prosecution in the Aquino case, and put our diplomatic and political weight behind these demands.

This is a critical time for the United States and a critical time for the Philippines. For us to ignore or to sidestep the human rights issue would be a dreadful mistake.

Thank you.

[Mr. Posner's prepared statement follows:]

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HUMAN RIGHTS IN THE PHILIPPINES

Testimony of Michael H. Posner

before the

Committee on Foreign Relations

of the

United States Senate

September 18, 1984

Mr. Chairman, thank you for inviting me to testify. My name is Michael Posner. I am the Executive Director of the New York-based Lawyers Committee for International Human Rights. Last December the Lawyers Committee issued a 142-page report on the human rights situation in the Philippines based on a mission of inquiry. The report concluded that a serious and deteriorating human rights situation in the Philippines infects both the quality of life and the long-range security of that nation. The report also concluded that the United States Government's public support for the Marcos government is undermining respect for human rights and ultimately jeopardizing U.S. interests in the Philippines.

Despite the technical lifting of martial law in January 1981, in recent years serious abuses of human rights by Philippine security forces have continued unabated throughout the country. In the past two years, they have grown significantly worse. Political killings of civilians, particularly in areas with an active communist insurgency, have increased dramatically since 1982. As noted in the State Department's Country Reports on Human Rights Practices for 1983, more cases of summary execution by government security forces were documented for the first half of 1983 than for the entire year of 1982. The situation in 1984 reflects a continuation of this pattern.

The past two years have also marked an increase in the cases of disappearances, the unlawful abduction of civilians by government forces. Those who survive arrest or unlawful abduction by security forces are frequently tortured in barbaric fashion. Persons seized as alleged subversives are beaten, suffocated, choked with water devices, subjected to electric shocks, burned, raped and mutilated. Like political killings and disappearances, documented instances of torture increased sharply in 1983, and continue to be a serious problem in 1984. Today, torture is a standard operating procedure of Philippine security forces engaged in counter-insurgency efforts.

While these abuses violate Philippine law as well as international norms, the most pervasive form of abuse in the Philippines -- arbitrary arrest and preventive detention without charge -- has the sanction of law. Pursuant to a series of presidential decrees, President Marcos has claimed for himself the power to order people arrested without warrant and held without bail until he personally orders their release. Last year the Supreme Court of the Philippines upheld these broad powers, and declared the judiciary powerless to review the validity of the detention of anyone arrested in this fashion. Accordingly, merely by calling someone a threat to national security, President Marcos can detain him or her indefinitely, at his sole and unfettered discretion.

The seriousness of the human rights situation in the Philippines is reflected in the amount of attention it has received internationally in recent years and months. Since September 1982 extensive reports about human rights violations in the Philippines have been prepared by our office, Amnesty International, the International Commission of Jurists, the Committee to Protect Journalists, the American Association for the Advancement of Science, and the American Committee for Human Rights. Several human

rights and legal groups in the Philippines, including the Free Legal Assistance Group, Task Force Detainees of the Philippines, and the Human Rights Committee of the Integrated Bar of the Philippines, continue to document these abuses and to provide assistance to victims and their families.

As these organizations have focused international attention on the human rights situation in the Philippines, Filipinos have waited expectantly for comparable expressions of concern from the United States Government. Because of their close historical ties to the U.S., Filipinos are intimately acquainted with the principles of freedom and democracy for which this country stands, and expect the United States to champion their fundamental rights when they are seriously threatened. They were shocked and disappointed when Vice President Bush instead praised President Marcos's "adherence to the democratic process" during his 1981 visit to the Philippines. They were again disappointed last fall when Vice President Bush urged restraint in criticizing President Marcos's human rights record.

Such remarks have perceptibly weakened our bonds with the Filipino public. Despite the passage of time, in recent months we have been repeatedly asked by Filipinos to explain Vice President Bush's remarks.

We also have been asked to explain why Congress has not applied U.S. human rights legislation to the Philippines.

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Section 660 of the Foreign Assistance Act bars U.S. military aid to police forces of other countries. Filipinos repeatedly question why Congress allows such aid to flow to the Philippine Constabulary, a police force operating under the command of the Armed Forces of the Philippines that is responsible for widescale human rights violations, including political killings and torture.

In short, Filipinos both expect and welcome a strong and unambiguous congressional stance on the human rights violations that have infected their nation for over a decade. Perhaps more to the point, our own long-term interests call for such action. Most obviously, the perceived failure of U.S. policy to adequately address human rights violations in the Philippines has fueled a growing anti-American sentiment there. To a disturbing extent, recent calls for President Marcos's resignation have been coupled with protests against the continued presence of the U.S. military bases in the Philippines, perhaps the most important U.S. military installations outside the United States. This growing antipathy toward the U.S. presence in the Philippines is due, at least in part, to a perception that the United States Government tacitly supports serious abuses by the Philippine Government.

While such anti-American currents are present in many countries to which we are allied, its manifestation in

the Philippines gives cause for special concern. To an unusual degree, many moderate opposition forces operating in the Philippines have grown reluctant to work even with private U.S. organizations, or to receive financial support from them. This development poses the specter that we may lose substantial influence in the Philippines even if moderate opposition forces -- rather than the more extreme left-wing forces -- gain greater power in the coming years.

Such developments have accelerated in the past year in the wake of the assassination of Benigno Aquino in August 1983. That event triggered a wave of popular disaffection in the urban centers of the Philippines. The protests unleashed by his murder, widely believed to have been ordered at the highest levels of the military, express growing discontent with over a decade of authoritarian rule. The Agrava Commission that was appointed last year to investigate the assassination is expected to release its findings in the next few weeks. The Commission heard 185 witnesses and received extensive evidenciary material. If, as expected, the Agrava Commission concludes that high-ranking Philippine officials participated in the killing, it remains uncertain what steps, if any, the Philippine Government will take to prosecute those who are responsible. Failure to act decisively will trigger yet another wave of protest, and further intensify the atmosphere of crisis.

Long-term U.S. interests in the Philippines are disserved by focusing on specific events like the May elections or the outcome of the Agrava Commission's inquiry without also addressing the pervasive human rights problems in the Philippines. While the government's response to the assassination is an important focal point of political unrest in urban centers, more pervasive human rights abuses are fueling a parallel wave of disaffection in the provinces. While these developments have received far less attention in the international press, in the long-term they may have far greater ramifications. In the countryside, years of human rights violations by Philippine security forces have led growing numbers of Filipinos to throw their support to communist insurgents, whom they perceive as the most effective opponents of a brutal government. The strength of the New People's Army (NPA), the armed wing of the Communist Party of the Philippines, has grown steadily in the past decade, particularly in the last year. NPA insurgents are now increasingly active throughout the country. While many peasants support the NPA for economic and social reasons, there is simply no question that military abuses in the rural areas have considerably enhanced their appeal.

There is every indication that this crisis will only worsen if its root causes are not addressed. With NPA strength on the rise, the Philippine military will

undoubtedly respond by intensifying its counter-insurgency efforts. These have typically been characterized by massive violations of human rights, which in turn, have tended to further radicalize the rural population.

It is now clear that the May elections have not resolved the crisis or diminished abuses by the armed forces. If present trends continue, the communist insurgency will continue to gain greater and greater support throughout the country, and a steadily worsening economic situation will further enhance the NPA's popular appeal.

The role of Congress can be greatly strengthened by identifying and clarifying the human rights factors relevant to U.S. policy initiatives. A proposal introduced by Congressman Stephen Solarz earlier this year recommended that Congress "front-load" the economic portion of aid committed to the Philippines over the next five years, explicitly leaving open the possibility of "back-loading" military aid in the later years of the agreement's term. The report of the House Subcommittee on Asian and Pacific Affairs states that "significant progress . . . in curtailing human rights abuses" is one of several factors that will be relevant to such deliberations, but a stronger message is both possible and necessary.

In Congress ultimately appropriates aid pursuant to this economic "front-loading" approach, the legislation appropriating future aid to the Philippines should explicitly

state that a portion of military aid committed under the recent MBA review was deferred in order to promote respect for human rights in the Philippines. The report accompanying this legislation should specify matters to which Congress will pay particularly close attention in future years as it considers reinstating military aid that was deferred in fiscal year 1985. These should include such serious and widescale abuses as political killings, torture, incommunicado detention and arbitrary arrests. They should also include developments with respect to the availability of the right to habeas corpus, the independence of the judiciary and press freedom.

In addition, Congress should specifically prohibit any aid to the Philippine Constabulary. As a unit of the Armed Forces of the Philippines, the Constabulary now benefits from military aid to the Philippines. But as a police force, it is barred by Section 660 of the Foreign Assistance Act from receiving such aid. The Constabulary is consistently identified as a gross violator of human rights. Accordingly, Congress should take affirmative steps to ensure future compliance with Section 660.

By taking such measures, Congress can seize the initiative, help reverse destabilizing trends in Philippine politics, and ensure a viable basis for U.S.-Philippine relations for years to come. Decisive action is as necessary as it is possible. Failing such action, the prospect of further deterioration is disturbingly real.

Senator MURKOWSKI. Thank you very much, Mr. Posner.

After studying the issue, what is your judgment on the relationship between Marcos and the military? Might the military be of such a stature that it could operate not necessarily independently, but with some immunity from President Marcos?

Mr. POSNER. It would not be a unique situation for the military to have its own agenda and its own base of power. Clearly the Philippine military, which has grown so dramatically in the last 10 or 12 years, has attained a certain political power, in some ways making it able to stand up to President Marcos.

On the other hand, he has certainly not taken the kind of dramatic steps that other presidents have, other civilian elected presidents, to bring the military under control. When military officers are involved in these abuses of human rights, they are never brought to trial. They are never disciplined.

We have raised these issues. Other human rights groups have raised them time and again. It is clear that whether President Marcos actively sanctions and cooperates with the abuses or merely allows them to go forward——

Senator MURKOWSKI. Do you have any opinion as to whether that is done or not?

Mr. POSNER. I do not have an opinion. My sense is, there probably are different situations where there are different reactions. I certainly would not want to say that President Marcos is ordering abuses to take place. I have no evidence of that.

I have never seen any evidence of that. I think more likely he is aware that the abuses are going on and either does not feel that he has the power or that he does not have the will to try to bring the situation under control.

Senator MURKOWSKI. In your presentation, you made reference primarily to tests for adherence to human rights, and that is something that the United States in your estimation ought to address through leverage or other purposes, yet you did not suggest that the cause may be the overexuberance of the military authority. You did not make any suggestions as to whether there should be some direction given by the United States in suggesting that that may be a part of the ill that exists in the human rights situation.

Do you think that there is foundation for a critique in that area?

Mr. POSNER. Absolutely. Without doubt the military is involved in incidents on a daily basis that deserve attention and are a large part of the problem. These incidents need to be critiqued, and understood here more clearly than they are.

Senator MURKOWSKI. So it is your suggestion then that the United States basically demands specific reforms?

Mr. POSNER. Absolutely.

Senator MURKOWSKI. As a condition for continued assistance, both economic and military?

Mr. POSNER. I would not go that far. I would divide, for example, economic and military assistance. It seems more appropriate to tie conditions to military aid. It also seems to me that we do not have to be looking at this as an all or nothing choice. It may well be that in an aid package that is $900 million, we are going to tie human rights conditions to $40 million or $80 million over a 5-year period.

But I think the point has to be made with more than quiet diplomacy that these are things that concern us, and that there is a dollar figure attached to compliance with the standards that we deem minimal. I think that can be done creatively, but I think that has to be done with some effective leverage of aid.

Senator MURKOWSKI. Well, it is not an easy thing to do, because often times you are misunderstood or interpreted as meddling in the internal affairs of a democracy, but I think your point of view and your suggestions have been constructive, and I commend you for your testimony, and I thank you.

Our next and last witness is Mr. Richard Buczynski, senior economist and director of Pacific Basin Econometric Services of Wharton Econometrics.

We thank you for your appearance, and look forward to your testimony, sir.

STATEMENT OF RICHARD J. BUCZYNSKI, SENIOR ECONOMIST AND DIRECTOR OF PACIFIC BASIN ECONOMETRIC SERVICES, WHARTON ECONOMETRICS, WASHINGTON, DC

Mr. BUCZYNSKI. Mr. Chairman, I have a longer statement that I am prepared to submit for the record.

Senator MURKOWSKI. It will be entered into the record.

Mr. BUCZYNSKI. I would like to keep my remarks brief, and I would essentially like to discuss four issues in sequence: one, the economic problems, being an economist, the economic problems now being experienced by the Philippines; two, the underlying root of these problems; three, the possible solutions or what is likely to unfold in terms of the IMF, in terms of the World Bank, in terms of commercial banks in the West, and then the challenges and prospects, and in addition some of the risks to these possible solutions that we are likely to see.

Senator MURKOWSKI. Would you also address whether you think the political situation is the cause of the economic collapse or the other way around? If so, it would be very helpful to have your expertise on that.

Mr. BUCZYNSKI. I will be discussing that.

Senator MURKOWSKI. And also whether you feel there is appropriate change taking place to stimulate investments within the country that will hopefully come home and result in stabilization of the economy.

Mr. BUCZYNSKI. I will surely address those.

Let me review just briefly what is going on now in the Philippines, because there have been some new developments that I think are quite pivotal.

We all know that economic output is contracting this year for the first time in the postwar period.

We are seeing some massive layoffs, some 60,000 since the beginning of the year. We have had a response in prices to the devaluation of the peso. The current inflation rate is running at approximately 50 percent, which is quite a bit below the advances in wage rates.

So, what we are seeing not only on a macroeconomic profile but also in the microeconomic profile because of the unemployment, be-

cause wage advances are lagging so far behind, advances in consumer prices, we are seeing the household being hit very, very hard.

What seems to be on the surface one of the causes, the near term causes to the immediate problem is the external debt, which has been brought up several times in this session.

Senator MURKOWSKI. The external what?

Mr. BUCZYNSKI. The external debt of the Philippines. The external debt of the Philippines, however, even though it is very pivotal in terms of what is going on in the economy now, in terms of policy, is not the cause of the problem, but merely the symptom of the problem.

The external debt, as a matter of fact, the Philippines have not been financing their external debt, the principal payments on it, since October 16 of last year.

They have called moratoria on their external debt, during which time the on again, off again negotiations with the IMF, the IMF becoming very frustrated not only with the Philippines' apparent unwillingness to restrain monetary growth with President Marcos prior to the elections pumping a great deal of money to finance the elections, and also the IMF becoming very frustrated with the Central Bank of the Philippines as well, and that the Central Bank of the Philippines had overstated their international reserve holdings by some $600 million.

Now, there are some new developments in terms of the IMF. Recently, over the weekend, as a matter of fact, we have seen announcements by the Philippine Central Bank that they have come to terms with the IMF. The terms of the IMF will not be disclosed, but they will obviously entail monetary restraint.

They will obviously entail fiscal austerity, and as well they are liable to discuss the issues of reform within the Philippines.

Now, what is the root of this whole debt crisis? There are some external factors. The recent recession did erode export earnings. The two oil shocks of the 1970's did put them in a very precarious position.

But even more so than those two instances and those two occurrences, the aggressive industrialization plans at the expense of agriculture since the mid-1970's of the Philippine Government and as well the inefficient state-controlled monopolies, particularly coconut and sugar and the "crony capitalism" have led to an efficient, uncompetitive economy.

In short, we have seen economic development that has benefited quite a few. These are the roots of the economic problems, not the debt issue. The debt issue is a symptom of these problems.

Now, where is the bandwagon going? We have seen one, the agricultural loan from the World Bank, with stipulations of reform in agriculture. In the new budget which will commence January 1, we will see the Marcos government making some effort, even though still in an austere time period, to phase down industrial development and go more to the strong suit of the economy, agriculture. Along with this, we should see some reforms.

Now, the bandwagon. The challenges. The prospects. The real bottom line is that the muddling through mode of the past decade, both in the political and in the economic arenas, are over. The

United States has a vested interest in the Philippines, and is now being asked to make an investment, an additional investment.

Now, looking at it as an economist, is it time to look to see what are the conditions of that investment? We will see the IMF on that bandwagon of reforms, economic reforms in the sectors of agriculture, also in the sectors of banking and finance. We will see the World Bank—we will see the Philippines' major creditors not be willing to extend credit, not be willing to reschedule the external debt unless compliance of the IMF package is upheld.

To move back just a little and answer some of the questions that you posed earlier, is it the economic problem causing the political problem, or is the political problem causing the economic problem? There is something in economics, Mr. Chairman, that we call simultaneity, and that they are both working on each other in a negative fashion.

The economy is in such a weak state because of the political structure, because of the favoritism. Those are important issues.

But then for the Philippine Government to hold on it has become more difficult, and they have had to have an even greater grasp on the economy and political affairs as the economy begins to wilt. So, there is a negative simultaneity in this process.

The other question, just again, to make a slight digression, is, have we seen the Philippines make any moves? Essentially what this to me asks is, is there a door open for U.S. policy?

There have been some announcements by the Central Bank very recently in terms of trying to restructure the financial sector, which has been in a very chaotic state for at least 4 or 5 years. There have been efforts in at least rhetoric in terms of restructuring agriculture and deemphasizing major projects.

Now, we have heard the rhetoric. The door is open. We have not seen anything physically, but there is a murmuring inside the Philippines.

My recommendation to you, Mr. Chairman, is that the door is open. The door is open for political reform. The door is open for economic reform. And, Mr. Chairman, we cannot have one without the other.

[Mr. Buczynski's prepared statement follows:]

PREPARED STATEMENT OF RICHARD J. BUCZYNSKI

INTRODUCTION AND SUMMARY

While most developing countries in Asia are experiencing a strong surge in economic growth spurred by the recovery in the West, the Philippines continues to be trapped in economic crises. This year many countries in the Pacific are enjoying rates of economic expansion reminiscent of the "miracle" growth years of the 1960's and 1970's. Single digit inflation typifies developing Asia and, in some countries, record low rates of consumer and wholesale price inflation have been reported. In contrast, the Philippines will suffer their first post-war economic contraction—a decline forecast to reach 5 percent this year. Inflation in the Republic will approach 50 percent for the year, a result of currency devaluation, a rapidly expanding money supply and the destabilizing impact of speculative buying spawned by the anticipation of further peso devalutions and continuing shortages of consumer goods.

But perhaps the most serious and pivotal economic problem is the inability to service the over 25 billion overseas debt. In fact, the external debt problem has been a major factor behind the harsh deterioration in the overall health of the economy. Since October 1983 the Philippines has suspended principle (but not interest) payments on foreign debt. Since that time authorities have sought a $9 billion debt re-

scheduling. Moreover, until recently officials have negotiated unsuccessfully with the IMF for a $650 million standby credit which would pay the way for the rescheduling and another $3.3 billion creditline from commercial creditors and other international organizations. The debt rescheduling has been an embarrassment to the government and has led to an unfortunate erosion in business confidence both at home and abroad.

The pervasive sentiment that the August 1983 assassination of opposition leader Benigno Aquino led to the debt crisis is unfounded. Although the assassination did hasten the evolution of the crisis, severe structural inefficiencies, the two oil shocks of the 1970's, and aggressive government borrowing are the real underpinnings of the dilemma. In reference to the latter, the goverment's imprudent strategy to favor the development of heavy industry has retarded agricultural development over the past 5–6 years. The rural economy is still the backbone of the nation and can, if properly developed, provide a strong consumer base to support Philippine industry.

The depression has adversely affected the economy at the household level as wage increases have lagged far behind rising prices, leading to a shape erosion in real per capita income. According to our own estimates, real per capita GDP is projected to fall by around 8 percent this year. Massive layoffs—totalling some 60,000 over the first six months of the year—together with the pinch of eroding incomes has led to unrest among the general population. Social unrest and violence which were mostly isolated incidents a year ago, have become more widespread of late.

Despite the surprisingly impressive showing of the moderate opposition in last May's general elections, President Ferdinand Marcos still maintains his stronghold on economic and political affairs. The opposition, although gaining representation, is still fragmented and provides little threat to Mr. Marcos' powerbase. The succession issue is even more murky in the aftermath of the elections as several key Marcos allies suffered defeats. Thus, the plethora of uncertainty that has been evidenced in the political arena for more than a decade is even palpable today.

The situation in the Philippines curiously parallels that in many Latin American countries. Intimate political/social/economic interrelationships will determine the outcome of the Philippine saga. The feasibility of potential solutions to the problem—and hence the viability of any forecast—rest heavily with economic, political and economic factors that are difficult to disintangle. Near-term remedies such as the debt rescheduling, rescue package and the specifics of IMF conditionality, all involve harsh tradeoffs. If the country can survive near-term adjustment this does not at all preclude another crisis sometime in the future. Political stability and economic restructuring will prove to be of paramount importance in the years to come. The typical muddling through mode of the past ten years is a thing of the past.

THE OVERSEAS DEBT CRISIS

Underpinnings of the crisis

Prior to the Aquino assassination external accounts were in an unfortunately precarious position. During the 1978–1983 period the Philippines had an accrued current account deficit of over $13 billion and total overseas debt rose by 266 percent. The global debt-service to export earnings ratio—which includes short-term debt in the numerator as well as interest and principle payments—increased from 68.6 percent in 1978 to 189.3 percent by 1983. A global debt-service ratio near or in excess of unity usually portends difficulties in servicing external debt. Ratios of this sort typically exceed one for Latin American countries and are well below that mark for other developing nations in the Pacific. But perhaps the most alarming statistic is the proportion of short-term debt to export earnings which rose steadily during the period and topped 140 percent late last year. Even before the assassination authorities reportedly struggled to refinance short-term obligations.

The underpinnings of the crisis are more structural than merely an offspring of the recent global recession—although the recession did thrust the nation closer to the edge of insolvency as it caused a deterioration in sorely needed export earnings during the 1981–1983 period. The rapid growth in foreign debt was more a direct result of the governments overemphasis on industrialization since the mid-1970's. Heavy investment in industry was made at the expense of agricultural and rural development. Only a small portion (less than 10 percent) of commercial lending was allotted for agriculture, given the governments emphasis on industry and trade. Moreover, and perhaps more seriously, President Marcos directed large sums of money to the enterprises of close friends and continously bailed out the companies of his coterie gradually weakening the competitiveness and efficiency of the business sector.

Delays in the rescue package

Unfortunately, the debt crisis is still unresolved although there was a recent breakthrough in the IMF negotiations. There are two sides to the story behind the delays. The first, and most damning, was the discovery late last year that the Central Bank had overstated international reserves by some $600 million. This followed nearly two years of intense controversy involving the actual amount of overseas debt—with the Central Bank finally conceding to the existence of an additional $8 million in external obligations. The disclosure that monetary expansion had far exceeded IMF guidelines during the final quarter of 1983 further tarnished the monetary authorities once notable aura of credibility. In the aftermath of these events, Jamie Laya was dismissed from his post of Central Bank governor and was replaced by Jose Fernandez. Additional 90 day moritoriums were requested and during the first half of 1984 very little progress was made in the IMF talks. Another factor behind the delays was President Marcos' unwillingness to impose harsh economic measures prior to the May elections.

More recently, under pressure from Marcos, the Central Bank bailed out financially ailing Banco Filipino. The bank, like several others, was suffering from a severe run induced by a panicky loss of confidence. What makes the Banco Filipino affair so noteworthy is that it is in direct violation of IMF conditionality. Moreover, reports that Marcos had flooded the economy with money to finance his parties reelection bids apparenty infuriated officials at the Fund.

ECONOMIC POLICY AND THE IMF

In June of this year Philippines authorities took matters into their own hands in an attempt to demonstrate to the IMF a resolve to adjust. The peso was devalued from 14:1 to 18:1 U.S. dollars and a 10 percent excise tax was imposed on non-priority imports. In effect there are three exchange rates: 18:1 for priority imports such as food, fuel and raw materials; 19.8:1 for non-priority imports including interest payments; and the 23:1 black market rate. In addition, the June policy measures included a 5 percent cut in government expenditures and a 2 percent hike in the import surcharge. Efforts to remove liquidity from the system continued particularly through higher reserve requirements and the selling of government securities at high rates of interest. The new fiscal year budget—commencing January 1—calls for a 14.4 percent increase in spending over the current year. Against a backdrop of double digit inflation, this represents a decline in real terms.

In mid-September, the Philippines finally reached an agreement with the IMF in their negotiations for a $650 million standby credit. Although not disclosed, terms of the agreement are likely to include a freer float of the peso and another devaluation. Tight monetary and austere fiscal policies are also likely components of the package. The challenge now rests in arranging $3.3 billion in fresh credits and a $9 billion debt rescheduling. Another 90 day moratorium on principle payments is likely to be requested in October and the entire rescue package will probably not be finalized until early next year.

There are several key factors that must be entertained in order to assess the economic viability, and, political and social feasibility of macroeconomic policy. If the adjustment medicine stipulated by the IMF is too strong it may result in a continuing drop in GDP and spiraling inflation. Such an occurance would have destabilizing effects in that they would prompt civil disobedience inducing a hardline response from President Marcos. Moreover, the economic restructuring demands of the IMF and World Bank will prove to be a political challenge to the president as many long time supporters would suffer as a result of efforts in this area. Thus, there is no obvious or painless solution to the problems that plague the Philippines and any course taken will entail substantial risks.

OUTLOOK

This year the economy is expected to contract by 4.8 percent amid consumer price inflation approaching 50 percent. The current account deficit is projected to narrow to $1.9 billion from $2.7 billion last year. Generally weak commodity prices and higher interest payments will offset some of the effects of the austerity induced decline in imports. All remaining aspects of the rescue package—the debt rescheduling and the finalization of $3.3 billion in fresh credits from commercial and other official sources—are not expected to be in place until the first few months of 1985, at the earliest. Thus, a meaningful economic recovery cannot be expected until at least 1986.

Beyond that date growth is forecast to accelerate slowly, inflation should subside and external accounts are expected to ameliorate gradually. However, the rescue package, although giving the government some time to address the myriad of structural problems, is not an economic cureall. Another severe export recession, mounting social unrest and events on the political front could push the country into economic crisis in the future. Therefore, the situation, will continue to be parlous even if the rescue package is finalized or apparent concessions are made by the Marcos regime.

Senator MURKOWSKI. Thank you, Mr. Buczynski. I think your comments and conclusion that indeed we must have both are certainly appropriate, and give rise to a responsible suggested course of action to resolve the purpose of this hearing today.

I noted in the conclusion of your formal remarks your forecast was guarded, and more specifically reflected on a continuation of the perilous rescue package that appears to be under formulation.

In your best opinion, is the climate sufficient now, without additional government intervention, to stimulate the confidence which would result in a more favorable investment climate, resulting in an expansion of general economic activity, or is it currently inadequate?

Mr. BUCZYNSKI. Let me try to answer this in a little broader framework, to talk about perhaps some of the risks.

Senator MURKOWSKI. Give me an inadequate or adequate, and then go into your explanation.

Mr. BUCZYNSKI. Right now, totally inadequate.

Senator MURKOWSKI. Thank you. Totally inadequate.

Mr. BUCZYNSKI. Totally inadequate. What we are likely to see, the IMF package is very close to being finalized, but we have seen this, of course, before, over the last 10 months.

The rescue package, Mr. Chairman, is a necessary but not a sufficient condition for economic recovery of any meaningful sense. It buys the Philippines time. It will not restore confidence to any extent that will have the economy flying back off into growth rates that were reminiscent of the 1960's and 1970's.

It will buy them time to restructure. It will buy them time to rebuild the economy. But it is not at all an economic cureall. We will see in the next 2 or 3 years still, regardless, even if we talk about a very optimistic scenario, we are talking about an extremely weak and vulnerable economy, and political factors will continue to play an important role in terms of confidence, in terms of capital flight, and in terms of servicing the external debt.

Senator MURKOWSKI. Do you feel that the administration was lax in not utilizing the issue of the bridge loan to the IMF as a leverage for certain conditions and demands that might have been appropriate in the areas that have been under discussion today?

Mr. BUCZYNSKI. Not really, because there are two considerations here. One, you cannot let the ship sink. If you let the Philippines go under, there will be nothing to resurrect. Some moneys have to go in just to keep the situation from deteriorating at an even more rapid rate than now.

Senator MURKOWSKI. But that is not my point. My point specifically is, this was an opportunity which the United States had because the bridge loan was necessary, and we evidently were prepared to do it, but we did not require any conditions to do it.

Mr. BUCZYNSKI. I think that in those terms, yes, lax.

Senator MURKOWSKI. We were lax. You would have suggested that we impose something additional, some conditions?

Mr. BUCZYNSKI. There would have had to be some conditions as to what these moneys were going for, that at a very minimum, and in terms of at least some guidelines, in terms of where the Philippine economy, where the Philippine political structure was hoping to aim.

Senator MURKOWSKI. Well, I think that we have covered a broad area today. We have had some excellent testimony reflecting the administration's views, and the private sector. Your collective suggestions, I think, have been positive. Your emphasis on human rights and the restoration of democracy have certainly been, to the point.

Again, I hope that this hearing is beneficial in the sense of indicating the concern of the Congress and the Senate not to interfere, but as a more positive contribution, to indicate to the country and the people of the Philippines our concern over what we perceive as a growing problem not only with the Communist insurgency but also the political instability and the economic deterioration. The question of just what role the United States should play is of grave concern to the administration and the Congress.

With the testimony today, I think we have had responsible witnesses address their assessment of the problem. Again, I would hope these views will be accepted by the Government of the Philippines as the Congress intends, that is, as the support of a neighbor that is more than a casual acquaintance. Indeed, the United States feels very responsible for inasmuch as we within our democratic system have seen fit to assist in the development of a democratic and independent nation, recognizing that it is indeed a fine line to stay out of internal affairs. We recognize that we do have more than just an obligation to the people and the country, and that we must indeed deal on a government-to-government basis, which is the only avenue open.

I would hope that this hearing will be a constructive contribution to the effort to attain greater political stability and economic recovery.

I thank you, gentlemen. I wish you all a good day.

The record will remain open for 10 days.

Thank you all very much.

[Whereupon, at 12:38 p.m., the subcommittee adjourned, subject to the call of the Chair.]

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